KHONG GUAN LIMITED

Company Registration No. 196000096G

ANNUAL REPORT

2017

Contents

Corporate Information

Directors

Chew Soo Lin (Chairman)
Chew Soo Eng (Managing Director)
Tay Kwang Lip Willie (Lead Independent Director)
Sam Teng Choong
Ng Peng Teng Dr
Chew Kian Boon Daniel

Audit Committee

Tay Kwang Lip Willie (Chairman)
Sam Teng Choong
Ng Peng Teng Dr

Nominating Committee

Tay Kwang Lip Willie (Chairman)
Chew Soo Lin
Ng Peng Teng Dr

Remuneration Committee

Tay Kwang Lip Willie (Chairman)
Sam Teng Choong
Ng Peng Teng Dr

Company Secretary

Koe Eng Chuan

Registered Office

85 Playfair Road, #07-01
Tong Yuan Industrial Building
Singapore 368000
Telephone No. 62822511
Fax No. 62855868
www.khongguanlimited.com

Auditor

RT LLP
Public Accountants and
Chartered Accountants
1 Raffles Place, #17-02
One Raffles Place
Singapore 048616
Audit Partner: Su Chun Keat
(appointed since financial year ended
31 July 2016)

Registrar

B.A.C.S. Private Limited
8 Robinson Road #03-00
ASO Building
Singapore 048544

Bankers

Standard Chartered Bank
DBS Bank Ltd
RHB Bank Berhad

Notice of Annual General Meeting

NOTICE IS HEREBY GIVEN that the Annual General Meeting of KHONG GUAN LIMITED will be held at the Banquet Hall (Level 3), The Grassroots' Club, 190 Ang Mo Kio Avenue 8, Singapore 568046 on Tuesday, 28 November 2017 at 11.00 a.m. to transact the following business:

Ordinary Business

1. To adopt the audited financial statements for the financial year ended 31 July 2017 and the Independent Auditor's Report and Directors' Statement thereon. **(Resolution 1)**

2. To declare a first and final tax exempt one-tier dividend of $0.03 per ordinary share for the financial year ended 31 July 2017. **(Resolution 2)**

3. To approve the payment of Directors' fees of $77,000 (2016: $84,000) for the financial year ended 31 July 2017. **(Resolution 3)**

4. To re-elect Dr Ng Peng Teng, who retires in accordance with Article 105(c) of the Company's Articles of Association and who being eligible, offers himself for re-election as a Director of the Company. **(Resolution 4)**

   Note: Dr Ng Peng Teng will, upon re-election, remain as a member of the Audit, Remuneration and Nominating Committees.

5. To note the retirement of Mr Sam Teng Choong, who is retiring under Article 105(c) of the Company's Articles of Association and who will not be seeking re-election.

   Note: Upon retirement of Mr Sam Teng Choong, he will relinquish his positions as member of the Audit Committee and Remuneration Committee.

6. To re-appoint RT LLP as Independent Auditor and to authorise the Directors to fix their remuneration. **(Resolution 5)**

7. To transact any other ordinary business.

Special Business

To consider and, if thought fit, to pass the following resolutions as Ordinary Resolutions with or without any modifications:

8. Renewal of shareholders' mandate for interested person transactions **(Resolution 6)**

   "That:

   (a) approval be and is hereby given, for the purposes of Chapter 9 of the Listing Manual of Singapore Exchange Securities Trading Limited ("**SGX-ST**"), for the renewal of the mandate (the "**Shareholders' Mandate**") which has been amended to incorporate certain changes including the revised individual and aggregate thresholds, particulars of which are set out in the Appendix to this Notice of Annual General Meeting for the Company and its subsidiaries or any of them to enter into any of the transactions falling within the types of the interested person transactions described in the said Appendix;

   (b) the Shareholders' Mandate shall, unless revoked or varied by the Company in general meeting, continue to be in force until the next Annual General Meeting of the Company; and

(c) the Directors of the Company be and are hereby authorised to complete and do all such acts and things (including executing all such documents as may be required) as they may consider expedient or necessary or in the interests of the Company to give effect to this Resolution."

9. Share Issue Mandate **(Resolution 7)**

"That pursuant to Section 161 of the Act, the Articles of Association of the Company and the Listing Manual of SGX-ST, authority be and is hereby given to the Directors of the Company to:

(a) (i) issue shares in the capital of the Company ("**shares**") whether by way of rights, bonus or otherwise; and/or

(ii) make or grant offers, agreements or options (collectively, "**Instruments**") that might or would require shares to be issued, including but not limited to the creation and issue of warrants, debentures or other instruments convertible into shares,

at any time and upon such terms and conditions and for such purposes and to such persons as the Directors may in their absolute discretion deem fit; and

(b) (notwithstanding the authority conferred by this Resolution may have ceased to be in force) issue shares in pursuance of any Instrument made or granted by the Directors while this Resolution was in force,

provided that:

(1) the aggregate number of shares to be issued pursuant to this Resolution (including shares to be issued in pursuance of Instruments made or granted pursuant to this Resolution), does not exceed 50% of the issued share capital of the Company (as calculated in accordance with sub-paragraph (2) below), of which the aggregate number of shares to be issued other than on a *pro rata* basis to shareholders of the Company (including shares to be issued in pursuance of Instruments made or granted pursuant to this Resolution) does not exceed 20% of the issued share capital of the Company (as calculated in accordance with sub-paragraph (2) below);

(2) for the purpose of determining the aggregate number of shares that may be issued under sub-paragraph (1) above:

(i) the percentage of issued share capital is based on the issued share capital of the Company as at the date of the passing of this Resolution after adjusting for:

(a) new shares arising from the conversion of convertible securities or employee share options on issue when this Resolution is passed; and

(b) any subsequent consolidation or subdivision of shares; and

(ii) in relation to an Instrument, the number of shares shall be taken to be that number as would have been issued had the rights therein been fully exercised or effected on the date of the making or granting of the Instrument;

(3) in exercising the power to make or grant Instruments (including the making of any adjustments under any relevant Instrument), the Company shall comply with the provisions of the Listing Manual of SGX-ST for the time being in force (unless such compliance has been waived by SGX-ST) and the Articles of Association for the time being of the Company; and

(4) (unless revoked or varied by the Company in general meeting) the authority conferred by this Resolution shall continue to be in force until the conclusion of the next Annual General Meeting of the Company or the date by which the next Annual General Meeting of the Company is required by law to be held, whichever is the earlier."

NOTICE OF BOOKS CLOSURE

NOTICE IS ALSO HEREBY GIVEN that the Transfer Book and Register of Members of the Company will be closed on 8 December 2017 for the preparation of dividend warrants. Duly completed registrable transfers received by the Company's share registrar, B.A.C.S. Private Limited, 8 Robinson Road #03-00 ASO Building, Singapore 048544, up to 5.00 p.m. on 7 December 2017 will be registered to determine members' entitlements to the proposed dividend. Members whose securities accounts with The Central Depository (Pte) Limited are credited with Shares at 5.00 p.m. on 7 December 2017 will be entitled to the proposed dividend. Payment of the dividend, if approved by shareholders at the Annual General Meeting, will be made on 15 December 2017.

By Order of the Board
Koe Eng Chuan
Company Secretary

Singapore, 10 November 2017

NOTE: A member of the Company entitled to attend and vote at the meeting may appoint a proxy to attend and vote instead of him. A proxy need not be a member of the Company. The instrument appointing a proxy must be deposited at the registered office of the Company at 85 Playfair Road #07-01 Tong Yuan Industrial Building, Singapore 368000 (Attention: Company Secretary) not less than forty-eight hours before the time appointed for holding the meeting.

Personal data privacy

By submitting an instrument appointing a proxy(ies) and/or representative(s) to attend, speak and vote at the AGM and/or any adjournment thereof, a member of the Company (i) consents to the collection, use and disclosure of the member's personal data by the Company (or its agent or service providers) for the purpose of the processing, administration and analysis by the Company (or its agents or service providers) of proxies and representatives appointed for the AGM (including any adjournment thereof) and the preparation and compilation of the attendance lists, minutes and other documents relating to the AGM (including any adjournment thereof), and in order for the Company (or its agents or service providers) to comply with any applicable laws, listing rules, take-over rules, regulations and/or guidelines (collectively, the "**Purposes**"), and (ii) warrants that where the member discloses the personal data of the member's proxy(ies) and/or representative(s) to the Company (or its agent or service providers), the member has obtained the prior consent of such proxy(ies) and/or representative(s) for the collection, use and disclosure by the Company (or its agents or service providers) of the personal data of such proxy(ies) and/or representative(s) for the Purposes and (iii) agrees that the member will indemnify the Company in respect of any penalties, liabilities, claims, demands, losses and damages as a result of the member's breach of warranty.

Chairman's Statement

Review of Operations

The competitive market conditions and the weak Ringgit Malaysia affected the turnover of our trading subsidiaries which decreased slightly from $58,708,000 to $57,111,000.

Following the improvement in the stock market sentiments, our trading in securities increased from $1,239,000 to $3,789,000 which resulted in a trading profit of $499,000 against last year's $139,000.

Trading Operations

Tong Guan Food Products Sdn Bhd '**TGF**'

TGF, operating in Sabah, experienced a decrease in the sales of wheat flour due to tough market competition. Shortage of quota available for the subsidized cooking oil, a hot-selling household item caused the sales of edible goods to be lower. Sales of biscuits which accounted for about 25% of TGF's total revenue and the sales of general goods remained relatively constant throughout the year.

Swee Hin Chan Co Sdn Bhd '**SHC**'

SHC, operating in Penang, managed to increase its sales of wheat flour but experienced a decrease in the sales of animal feeds as end-users replaced their requirement of wheat bran and pollard with cheaper maize imported by others. The sales of starches also suffered a decrease as result of the loss of an unrelated, Bursa-listed major customer, which had sought protection under PN 17.

Lower sales volume, coupled with the difficulty in maintaining profit margin due to intense competition have resulted in lower profit for our trading subsidiaries.

Manufacturing Operations

Our 30% held associate, United Malayan Flour (1996) Sdn Bhd improved its profit after taxation from S$5,406,000 (RM16,167,000) to S$6,146,000 (RM18,992,000). Turnover was S$80,480,000 (RM248,701,000) as compared with last year's S$83,074,000 (RM248,427,000). Though the turnover from wheat flour sales declined, it was offset by the improvement in the turnover of its oats milling subsidiary. The turnover in Singapore dollar was lower due to translation from a weaker Ringgit Malaysia. The profit after taxation improved on the back of lower raw material cost and better sales from its subsidiary.

Redevelopment of Existing Property

The redevelopment of the existing heritage building is progressing as planned and is expected to be completed by the end of the year.

Dividend

A first and final tax exempt one-tier dividend of $0.03 per ordinary share for the financial year ended 31 July 2017 has been recommended by the Directors for approval by shareholders at the forthcoming Annual General Meeting.

Chairman's Statement

Prospects

Although the stock market has recovered somewhat, the financial markets are still fraught with uncertainties and trading in short-term investments will be carried out cautiously.

The two trading subsidiaries in Malaysia will continue to review and develop their own marketing strategies in light of intense competition. Our flour milling associate in Malaysia should be able to improve its profitability due mainly to the expected increases in the export of oats products by its oats milling subsidiary.

As the group operates substantially in Malaysia, our operating results would be affected by the fluctuations in the Ringgit Malaysia. Our directors therefore cautiously envisage that the group's results should be better in the coming year.

Acknowledgements

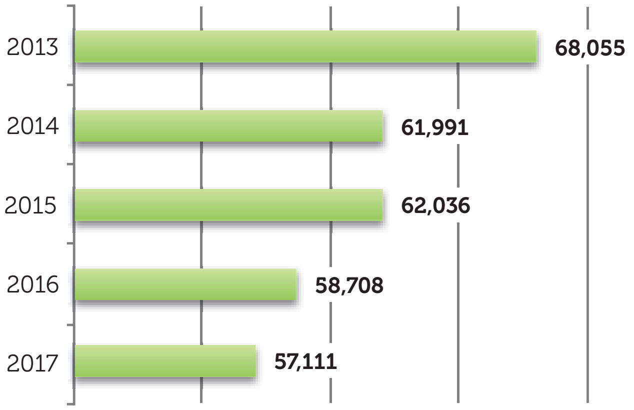
On behalf of the Board of Directors, I would like to take this opportunity to extend our deepest appreciation to our shareholders, customers and business associates for their continued support. In addition, I would like to extend our appreciation to the management and staff of the group for their hard work and dedication throughout the year. Last but not least, I would also like to thank my fellow Directors for their invaluable guidance and advice.

Chew Soo Lin
Chairman

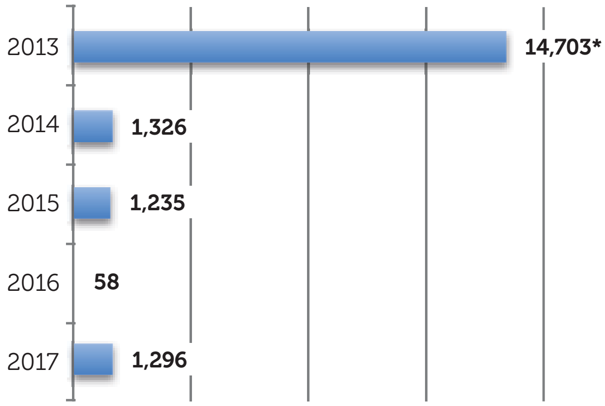
Group Financial Highlights as at 31 July 2017

($'thousand)	2017	2016	2015	2014	2013
Revenue	57,111	58,708	62,036	61,991	68,055
Attributable profit	1,296	58	1,235	1,326	14,703
Total assets	71,040	72,359	75,270	77,486	77,111
Shareholders' equity	61,994	62,796	66,161	68,929	68,768

Revenue ($'thousand)

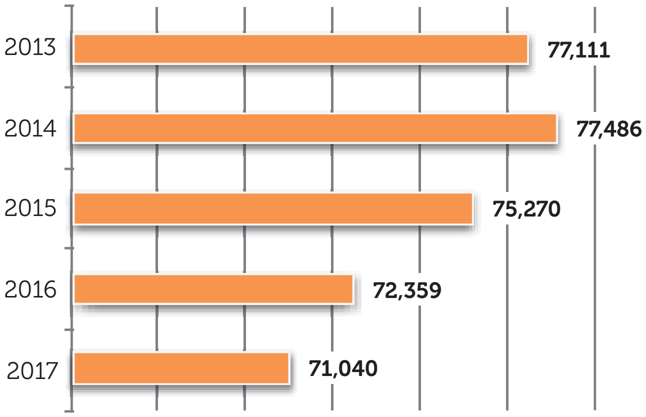


Attributable profit ($'thousand)

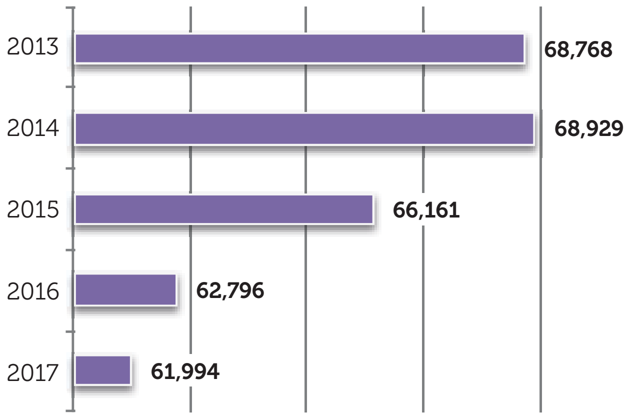


* Included gain on disposal of long-term investment.

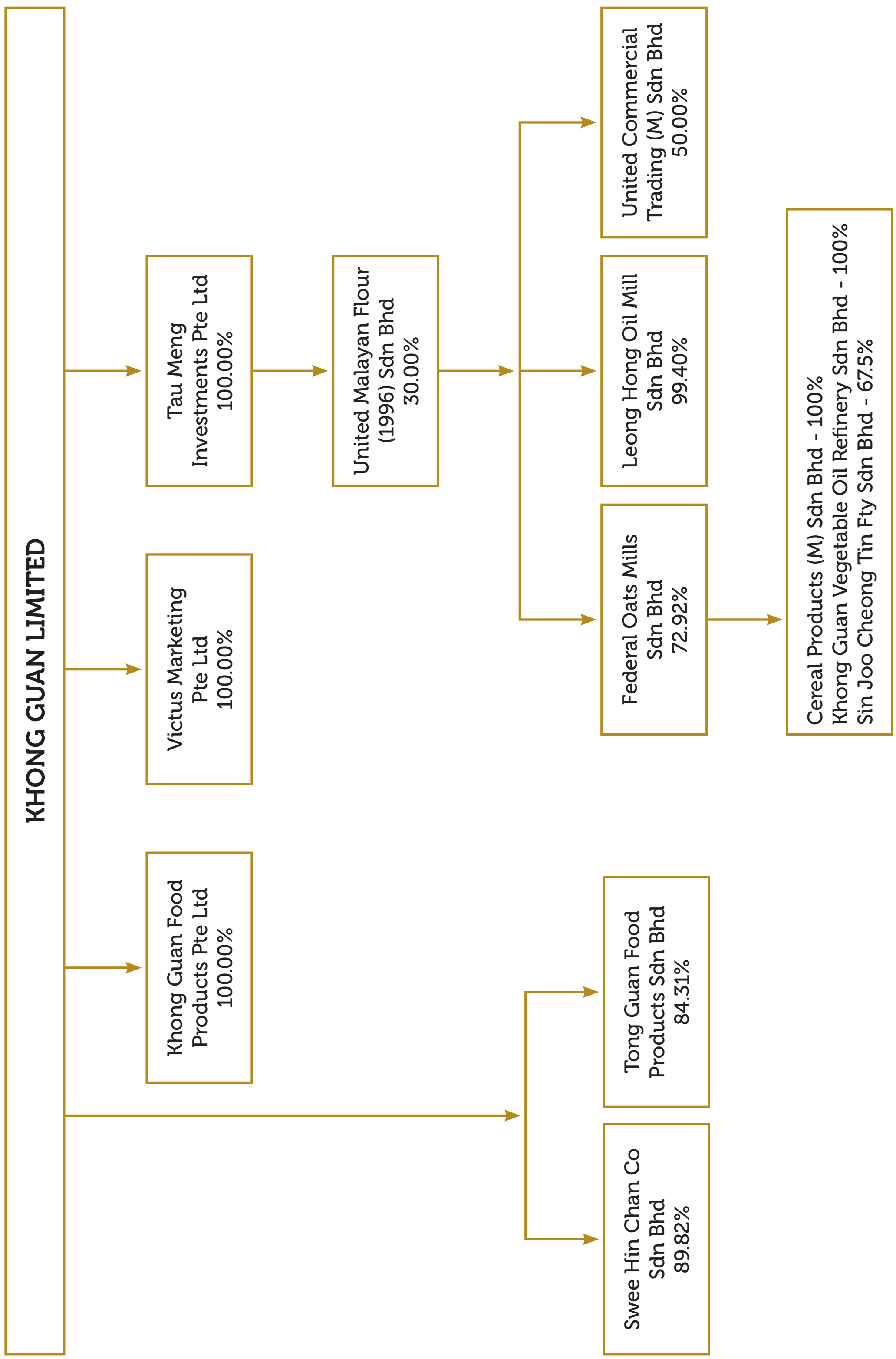
Total assets ($'thousand)



Shareholders' equity ($'thousand)



Group Structure



Corporate Governance

Khong Guan Limited (the "Company") is committed to maintaining good corporate governance in accordance with the principles and guidelines set out in the Code of Corporate Governance 2012 ("the Code").

This report outlines the main corporate governance practices during the financial year ended 31 July 2017 that were in place throughout the financial year, with specific references to each of the principles of the Code and where appropriate, we have provided explanations for deviations from the Code.

PRINCIPLE 1: THE BOARD'S CONDUCT OF ITS AFFAIRS

The principal functions of the Board of Directors of the Company (the "Board") are to provide guidance and to decide on certain important matters, including those involving the review and approval of strategic plans, direction and policies, to review the Group's performance, to review the adequacy and integrity of internal controls, and to approve material acquisitions and disposals of assets. The Board sets the values and standards for the Group to ensure that the reputation of the Group is being upheld. In setting strategic objectives, the Board has also considered environmental, social and governance factors to ensure sustainability of the Group's business.

All Directors objectively discharge their duties and responsibilities at all times as fiduciaries and take decisions in the interests of the Company.

These functions are carried out by the Board and supported by three committees, namely the Audit Committee ("AC"), the Nominating Committee ("NC") and the Remuneration Committee ("RC"), established by the Board (collectively referred to as "Board Committees"). The Board Committees operate within clearly defined terms of reference and they play an important role in ensuring good corporate governance in the Company and within the Group. The terms of reference of the Board Committees are reviewed on a regular basis to ensure their continued relevance. The Board accepts that while these Board committees have the authority to examine specific issues which are spelt out in the terms of reference of the respective Board committees and that they will report to the Board with their decisions and/or recommendations, the ultimate responsibility on all matters lies with the Board.

Matters which are specifically reserved to the full Board for decision-making include those involving the review and approval of strategic plans, direction and policies, material acquisitions and disposals of assets, corporate or financial restructuring and share issuances, dividends and other returns to shareholders.

The number of Board and Board Committee meetings held in the financial year ended 31 July 2017 and the attendance of Directors during these meetings is as follows:

Total held in FY2017	Board 5	Audit Committee 3	Nominating Committee 2	Remuneration Committee 1
Name of Directors				
Chew Soo Lin	5	NA	2	NA
Chew Soo Eng	5	NA	NA	NA
Tay Kwang Lip Willie	5	3	2	1
Sam Teng Choong	4	3	NA	1
Ng Peng Teng Dr	5	3	2	1
Chew Kian Boon Daniel	4	NA	NA	NA

PRINCIPLE 1: THE BOARD'S CONDUCT OF ITS AFFAIRS – *cont'd*

Management briefs new Directors on the Group's business and strategic direction, as well as governance practices. All Directors are appointed to the Board by way of formal letter of appointment indicating their role, obligations, among other matters, duties and responsibilities as a member of the Board. There is no new appointment of Director in the financial year ended 31 July 2017.

The Management will monitor new laws, regulations and commercial developments and will keep the Board informed accordingly. The Directors are encouraged to attend relevant courses, conferences and seminars and receive training to improve themselves in the discharge of Directors' duties and responsibilities.

The Directors are also kept abreast of any developments which are relevant to the Group, and of any developments of relevant new laws and regulations which have an important bearing on the Group and the Directors' obligations to the Group, from time to time.

New releases issued by the SGX-ST and Accounting and Corporate Regulatory Authority ("ACRA"), which are relevant to the Directors are circulated to the Board. The Company Secretary also informs the Directors of upcoming conferences and seminars relevant to their roles as Directors of the Company. The external auditors would update the AC and the Board on new and revised financial reporting standards as and when these are issued.

PRINCIPLE 2: BOARD COMPOSITION AND GUIDANCE

The Company endeavors to maintain a strong and independent element on the Board. Out of six Board members, the Company has three Independent Directors.

The criteria of independence are based on the definition given in the Code. The NC is tasked to determine on an annual basis and as and when the circumstances require whether or not a Director is independent. For the purpose of determining Directors' independence, every Director has provided declaration of his/her independence which is deliberated upon by the NC and the Board.

The Board also recognizes that independent Directors may over time develop significant insights in the Group's business and operations, and can continue to provide significant and valuable contributions objectively to the Board. Dr Ng Peng Teng has served as an Independent Director of the Company for more than nine years and the Board has rigorously reviewed his independence under the Code. Dr Ng has no association with the management. He has objectively expressed his individual viewpoints on Board matters and presented the issues he identified to the Board. The NC and the Board have concurred that Dr Ng Peng Teng has continued to possess strong independence in character and judgement in the discharge of his responsibility as a Director of the Company.

The company does not have a written policy with regard to diversity of Board composition. However, it will consider the benefits of all aspects of diversity, including of skills, experience, background, gender, age, ethnicity, and other relevant factors in identifying Director nominees.

Key information regarding the Directors is disclosed in the profile of Directors and Executive Officers. Together the Board has a diverse wealth of experience as well as skills. The diversity of experience, skills and competencies of the Directors have enhanced the effectiveness of the Board in carrying out its responsibilities.

PRINCIPLE 2: BOARD COMPOSITION AND BALANCE – *cont'd*

The Board comprises the following members:

Executive Directors

Chew Soo Lin
Chew Soo Eng
Chew Kian Boon Daniel

Independent Directors

Tay Kwang Lip Willie
Ng Peng Teng Dr
Sam Teng Choong

The Board is of the view that the current Board, with independent Non-Executive Directors making up one half of the Board, provides for a strong and independent element on the Board capable of exercising objective judgement on corporate affairs of the Group. No individual or small group of individuals dominates the Board's decision-making. The Board's structure, size and composition is reviewed annually by the NC. The Board is of the view that the present size of the Board is appropriate after taking into account the scope and nature of the Group's operations.

The Independent Directors meet on a need-be basis without the presence of the Management to discuss matters such as the Group's financial performance, corporate governance initiatives, board processes, succession planning as well as leadership development and the remuneration of the Executive Directors.

PRINCIPLE 3: ROLE OF CHAIRMAN AND MANAGING DIRECTOR

The Company has a separate Chairman and Managing Director. Mr Chew Soo Lin is the Executive Chairman and Mr Chew Soo Eng is the Managing Director. Both Mr Chew Soo Lin and Mr Chew Soo Eng are part of the executive management team. As all major decisions made by the Chairman and the Managing Director are reviewed by the Board and the Company has a simple organizational structure, the Board is of the opinion that this arrangement does not undermine the accountability and capacity of the Board for independent decision making.

The Board is of the opinion that despite both the Chairman and the Managing Director being Executive Directors, with the composition of the Board comprising three Independent Directors, there are sufficient checks and safeguards to ensure that the process of decision making by the Board is independent and based on shared agreement without any individual exercising significant concentration of control or authority.

The roles and responsibilities of the Chairman and Managing Director are distinct and separate. This is to ensure appropriate balance of power and accountability in decision making. The Managing Director is the most senior executive in the Company and bears responsibility for the Company's business, while the Chairman is responsible for the leadership of the Board. The Chairman schedules Board meetings and sets Board agenda in consultation with the Managing Director. The Chairman ensures that all Board members are provided with adequate and timely information.

PRINCIPLE 3: ROLE OF CHAIRMAN AND MANAGING DIRECTOR – *cont'd*

Mr Tay Kwang Lip Willie, as the Lead Independent Director, meets at least once annually with other Independent Directors without the presence of Executive Directors and after such meetings, he will provide feedback to the Executive Chairman. Mr Tay Kwang Lip Willie is also available to shareholders directly, in respect of matters where they have concerns and for which, contact through the normal channels of the Executive Chairman and the Managing Director may not be appropriate or have failed to resolve.

PRINCIPLE 4: BOARD MEMBERSHIP

Nominating Committee

The Nominating Committee ("NC") comprises the following three members, two of whom are independent and non-executive.

Tay Kwang Lip Willie (Chairman)
Chew Soo Lin
Ng Peng Teng Dr

The principal functions of the NC are, among other matters, to recommend all Board and Board Committee appointments, reappointments or re-elections, to determine the independence of each Director, to evaluate the performances of the Directors, to identify new Directors who have the diversity of experience and appropriate knowledge and skills to contribute effectively to the Board and to review the Board's succession plans for Directors, particularly the Chairman and the Managing Director. Each member of the NC abstains from voting on any resolutions, making any recommendations and participating in any deliberations of the NC in respect of the assessment of his performance and re-nomination as a Director.

New Directors are at present appointed by way of a Board resolution, after the NC approves their appointment. The Company's Articles of Association provides that one-third of the Directors shall retire by rotation at each annual general meeting and if eligible, they may offer themselves for re-election.

In considering the appointment of any new director, the NC ensures that the new director possesses the necessary skills, knowledge and experience that could facilitate the Board in making sound decisions. The NC will meet with the selected candidate to assess his/her suitability, before making its recommendations to the Board for the Board's approval.

The NC recommended that Ng Peng Teng Dr, retiring by rotation, and being eligible, be nominated for re-election.

None of the Directors exceeds the maximum number of listed board representations determined by the NC and the Board, which is 6. Notwithstanding that one of the Directors has multiple Board representations, the NC is satisfied that this director is able to and has been adequately carrying out his duties as a Director of the Company. The multiple directorships of this Director is disclosed in his Director's profile.

Currently, the Board does not have any alternate directors.

PRINCIPLE 5: BOARD PERFORMANCE

A review of the Board's performance will be undertaken collectively by the Board as a whole. The Company believes that the Board's performance is ultimately reflected in the performance of the Group. The Board, through the delegation of its authority to the NC, ensures that the Directors appointed to the Board possess the relevant background, experience, knowledge and skills so that each Director can contribute to the effectiveness of the Board with an independent and objective perspective.

The performance evaluation of individual director includes his/her contributions to the development of strategy, availability at board meetings (including informal contribution via email and telephone), interactive skills, degree of preparedness, as well as industry and business knowledge and experience which are crucial to the Group's business.

The NC Chairman, in conjunction with the Chairman of the Board, conducts an annual assessment of the effectiveness of the Board as a whole, effectiveness of its Board committees and the contribution by each individual Director and its Chairman. The assessment comprises self-assessment, board assessment and peer evaluations.

The Company believes that apart from the Directors' fiduciary duties (i.e. acting in good faith, with due diligence and care, and in the best interests of the Company and its shareholders), the Board's key responsibilities are to set strategic directions and to ensure that the long term objective of enhancing shareholders' wealth is achieved.

PRINCIPLE 6: ACCESS TO INFORMATION

In order to ensure that the Board is able to fulfill its responsibilities, management provides the Board members with timely half-yearly management financial statements, half-yearly interested parties transactions report and explanation on material variances to enable them to oversee the Group's operational and financial performance. Directors are also informed on a regular basis as and when there are any significant developments or events relating to the Group's business operations.

Management staff and the Company's auditor, who can provide insight into the matters for discussion, are also invited from time to time to attend the Board meetings. The Company Secretary attends all Board meetings and ensures that all Board procedures are followed. The Company Secretary, together with other management staff of the Company, also ensures that the Company complies with the applicable statutory and regulatory rules.

The Directors have separate and independent access to the Company's senior management and the Company Secretary at all times. Should the Directors, whether as a group or individually, need independent professional advice, the Company will appoint a professional advisor selected by the group or individual, and approved by the Chairman and the Managing Director, to render the advice. The cost of such independent professional advice will be borne by the Company.

The appointment and the removal of the Company Secretary are subject to the approval of the Board.

PRINCIPLE 7: PROCEDURES FOR DEVELOPING REMUNERATI0N POLICIES
PRINCIPLE 8: LEVEL AND MIX OF REMUNERATION
PRINCIPLE 9: DISCLOSURE ON REMUNERATION

Remuneration Committee

The remuneration committee ("RC") comprises the following three members who are independent and non-executive.

Tay Kwang Lip Willie (Chairman)
Sam Teng Choong
Ng Peng Teng Dr

The terms of reference for the RC include reviewing and approving the existing benefits and remuneration of Executive Directors and senior executives and recommending the fees of Non-Executive Directors.

The RC reviews the Company's obligations in the event of termination of the Executive Directors and Key Management Personnel's contracts of service, to ensure that such contracts of service contain fair and reasonable termination clauses which are not overly generous.

The RC in establishing the framework of remuneration policies endorsed by the Board for its Executive Directors and senior executives aims to be fair, linking rewards to corporate and individual performance and avoid rewarding poor performance.

The Group sets remuneration packages which are competitive in line with the market and sufficient to attract, retain and motivate senior management with adequate experience and expertise to manage the business and operations of the Group.

The RC presently adopts a remuneration policy of fixed and variable components. The fixed component is in the form of a basic salary and the variable component is in the form of a bonus which is linked to the performance of the Group. No Director is involved in deciding his own remuneration.

The Company has no share-based compensation scheme or any long-term scheme involving the offer of shares or options in place.

Having reviewed and considered the variable to components of the Executive Directors and the Key Management Personnel, which are moderate, the RC is of the view that there is no requirement to institute contractual provisions to allow the Company to reclaim incentive components of their remuneration paid in prior years in exceptional circumstances of misstatement of financial results, or of misconduct resulting in financial loss.

The Board has also recommended a fixed fee for Non-Executive Directors, which is appropriate and not excessive, taking into account the effort, time spent and responsibilities of each Non-Executive Director. The fee of non-executive directors is subject to shareholders' approval at the Annual General Meeting.

Mr Chew Kian Hong Michael, an immediate family member of the Managing Director, had received remuneration in the band between $100,001 and $150,000 during the financial year.

Remuneration Committee – *cont'd*

The remuneration components paid to each of the Group's Executive Directors and Non-Executive Directors for the year ended 31 July 2017 are set out below:

Name of Director	Salary $	Bonus and Benefits $	Fees $	Total $
Chew Soo Lin	241,000	75,000	–	316,000
Chew Soo Eng	365,000	122,000	–	487,000
Chew Kian Boon Daniel	144,000	33,000	–	177,000
Tay Kwang Lip Willie	–	–	40,000	40,000
Sam Teng Choong	–	–	19,000	19,000
Ng Peng Teng Dr	–	–	18,000	18,000

Note: Mr Chew Kian Boon Daniel is the son of Mr Chew Soo Eng and nephew of Mr Chew Soo Lin.

Key Senior Management Remuneration

Mr Chew Soo Lin, Mr Chew Soo Eng and Mr Chew Kian Boon Daniel who are Executive Directors of the Company are the only Key Management Personnel of the Group. The other management staff for the Group (who are not Directors) received remuneration for the financial year ended 31 July 2017 within the band of $250,000 and below.

PRINCIPLE 10: ACCOUNTABILITY

The Board is accountable to the shareholders for providing them with a balanced and understandable assessment of the Group's financial results, financial position and prospects through announcements. The Management has provided the Board on a regular basis and as and when required with management accounts which present a balanced and understandable assessment of the Group's performance, position and prospects.

The Board has also taken steps to ensure compliance with legislative and regulatory requirements. In line with the requirements under the rules of the SGX-ST, the Board provides a negative assurance statement to the shareholders in respect of the half yearly financial statements. For the financial year under review, the Chairman and Managing Director have provided assurance to the Board on the integrity of the Group's financial statements.

PRINCIPLE 11: RISK MANAGEMENT AND INTERNAL CONTROLS

The Board is responsible for the governance of risk. The Board should ensure that Management maintains a sound system of risk management and internal controls to safeguard shareholders' interests and the Company's assets, should determine the nature and extent of the significant risks which the Board is willing to take in achieving its strategic objectives.

The Group adopts a decentralized approach to risk management, whereby the individual head of business units takes ownership and accountability for risks at their respective levels. The individual business units through a risk monitor, updates the Board on their operational, financial and compliance risks management.

PRINCIPLE 11: RISK MANAGEMENT AND INTERNAL CONTROLS – *cont'd*

The Group operates within a low overall risk range. The Group has lowest risk appetite towards safety and compliance objectives including health, safety and financial reporting with almost zero risk tolerance and marginally higher risk appetite towards its strategic and operational objectives with low to medium risk tolerance.

The AC, has assumed a risk oversight role to assess the risk management as part of the Group's efforts to strengthen its risk management processes and framework, in overseeing the formulation, update and maintenance of an adequate and effective risk management and internal control system.

Risk assessment and evaluation has become an essential part of the business planning and monitoring process. The Group has put in place risk monitors on its risk profile which summarizes the material risks faced by the Group and the countermeasures in place to manage or mitigate those risks for the review by the AC and the Board annually.

The internal audit team performs risk assessment and conducts the review of the effectiveness of the Group's internal controls, including financial, operational and compliance controls and risk management systems in accordance with COSO Framework for internal audit works. The internal auditors have unrestricted access to the AC on internal audit matters. The AC reviews and endorses the internal audit plan and internal audit reports of the Group. Any material non-compliance or failures in the internal audit function and recommendations for improvements are reported to the AC.

PRINCIPLE 12: AUDIT COMMITTEE

The Audit Committee ('AC') comprises the following members:

Tay Kwang Lip Willie (Chairman)
Sam Teng Choong
Ng Peng Teng Dr

All members of the AC are independent and non-executive. The AC is able to exercise objective judgement which is independent from the Management and no individual or small group of individuals will dominate the decisions of the AC. The Board is satisfied that all members of the AC are appropriately qualified to discharge their responsibilities.

The principal functions of the AC, among other matters, are:

- to review the half-yearly and full year financial statements to be issued by the Group with the Management and, where appropriate, with the Company's external auditor, before their submission to the Board;
- to review the scope and results of the audit and its cost-effectiveness and the independence and objectivity of the external auditor;
- to review the effectiveness of the internal audit function;
- to provide oversight on Group's risk management;
- to make recommendations to the Board on the appointment, re-appointment or removal of the external auditor, and to approve the remuneration and terms of engagement of the external auditor;
- to review interested person transactions.

PRINCIPLE 12: AUDIT COMMITTEE – *cont'd*

The number of meetings convened by the AC is set out in Principle 1: The Board's Conduct of its Affairs.

The Board and the AC are satisfied that the appointments of different auditors for the Group's overseas subsidiaries and associates would not compromise the standard and effectiveness of the Group's audit.

To create an environment for open discussion on audit matters, the AC meets with the external and internal auditors, without the presence of the Management, at least once a year.

Minutes of the AC meeting were given to the Board members for their information and review.

The AC assesses the external auditor based on factors such as the performance and quality of their audit and their independence, and recommends their appointment to the Board.

The Group has complied with Rules 712, 715 and 716 of the Listing Manual issued by SGX in relation to its auditors.

The aggregate amount of fees paid/payable to the external auditors of the Company and subsidiaries for audit services was $64,586. There were no material non-audit services provided by the external auditors for the financial year ended 31 July 2017.

The AC has in place a whistle–blowing policy where the staff of the Group and third parties may, in confidence, raise concerns about possible improprieties in matters of financial reporting or other matters, with the objective of ensuring that arrangements are in place for the independent investigation of such matters for appropriate follow–up action. The AC has explicit authority to conduct investigations into any matters within its terms of reference, including having full access to and co-operation of the Management, has full discretion to invite any Director or executive officer to attend its meetings, and has been given reasonable resources to enable it to discharge its functions.

No former partner or Director of the Company's existing auditing firm or auditing corporation is a member of the AC.

PRINCIPLE 13: INTERNAL AUDIT

The Board recognizes the importance of good corporate governance practices and a sound system of internal controls in safeguarding shareholders' investment as well as the Group's assets. With the assistance of the external and internal auditors, the AC conducts annual review of their reports on the system of internal controls and to satisfy that the Group's internal controls are adequate.

The AC approves the hiring, removal, evaluation and compensation of the internal auditors. The Internal Auditor reports primarily to the Chairman of the AC and has unrestricted access to the documents, records, properties and personnel of the Company and of the Group.

The Group's internal audit function in respect of the Malaysian operations has been outsourced to SMS Risk Management Sdn Bhd, an experienced and qualified professional risk management company in Malaysia. This outfit is helmed by a qualified member of Malaysia Institute of Certified Public Accountants and adequately staffed.

PRINCIPLE 13: INTERNAL AUDIT – *cont'd*

The Board with the concurrence of the AC is of the opinion that the Company's internal control system for financial, operational and compliance risks, and its risk management systems are adequate and effective in meeting the current needs of the Group's business operations.

As there are inherent limitations in any system of internal controls, this system is designed to manage rather than eliminate risks that may impede the achievement of the Group's business objectives. Accordingly, it can only provide reasonable but not absolute assurance against material misstatement or loss.

PRINCIPLE 14: SHAREHOLDERS RIGHTS
PRINCIPLE 15: COMMUNICATION WITH SHAREHOLDERS

The Company does not practise selective disclosure. The Company ensures an adequate and timely disclosure of all material information to the shareholders. The Company communicates with its shareholders through the Annual Report, Annual General Meeting, Circulars to Shareholders and announcements through SGXNET. The Company ensures that price-sensitive information is publicly released, and is announced on an immediate basis where required under the Listing Manual of the SGX-ST. Where an immediate announcement is not possible, the announcement is made as soon as possible to ensure that shareholders and the public have fair access to the information.

The Company allows corporations which provide nominee or custodial services to appoint more than two proxies to attend the general meetings.

Shareholders are given the opportunity to participate effectively and vote at the general meetings of shareholders. Substantially separate issues are put to vote as separate resolutions.

The Group does not have a fixed dividend policy at present. The form, frequency and amount of dividends declared each year will take into consideration the Group's profit growth, cash position, positive cash flow generated from operations, projected capital requirements for business growth and other factors as the Board may deem appropriate.

PRINCIPLE 16: CONDUCTS OF SHAREHOLDERS MEETING

At general meetings of the Company, shareholders are given the opportunity to communicate their views and ask the Directors and Management questions regarding matters affecting the Company. There are separate resolutions at the general meetings for each distinct issue. The external auditor and the Senior Management are available at the Annual General Meeting to respond to, and to assist the Directors in responding to shareholders' questions.

In accordance with the Articles of Association of the Company, each shareholder may appoint not more than two proxies to attend and vote on his/her behalf. A proxy need not be a member of the Company.

The Company acknowledges that voting by poll in all its general meetings is integral to the enhancement of corporate governance. The Company adheres to the requirements of the Listing Manual of the SGX-ST and the Code. All resolutions at the Company's general meetings put to vote by poll. The detailed results of each resolution are announced via SGXNET after the general meetings.

ADDITIONAL INFORMATION
Interested Person Transactions ("IPT")
(Listing Manual Rule 907)

The Company has established a procedure for recording and reporting interested person transactions which are to be transacted on normal commercial terms and reviewed by the AC. Details of significant interested person transactions for the financial year ended 31 July 2017 are set out below:

Name of Interested Person	Aggregate value of all IPT during the financial year under review (excluding transactions less than S$100,000 and transactions conducted under shareholders' mandate pursuant to Rule 920)	Aggregate value of all IPT conducted under shareholders' mandate pursuant to Rule 920 (excluding transactions less than S$100,000)
	S$	S$
Purchases from		
Chung Ying Confectionery & Food Products Sdn Bhd	–	2,530,000
Federal Oats Mills Sdn Bhd	–	247,000
Khong Guan Biscuit Factory (Borneo) Sdn Bhd	–	4,219,000
Leong Hong Oil Mill Sdn Bhd	–	1,216,000
United Malayan Flour (1996) Sdn Bhd	–	11,682,000
Sales to		
Khian Guan Biscuit Manufacturing Co Sdn Bhd	–	335,000
Khong Guan Biscuit Factory (Johore) Sdn Bhd	–	179,000
Lian Seng Hang Sdn Bhd	–	983,000
Poh Seng Trading (Ipoh) Sdn Bhd	–	1,402,000
Soon Guan Chan Sdn Bhd	–	315,000
Soon Guan Co Sdn Bhd	–	138,000
Sunshine Traders Sdn Bhd	–	668,000
Thong Hong Trading Sdn Bhd	–	286,000

MATERIAL CONTRACTS

Except as disclosed in Note 30 (Related Party Disclosures) of the Notes to the Financial Statements, no material contracts of the Company and its subsidiaries involving the interests of each director or controlling shareholders, were subsisting at or entered into since the end of the last financial year.

Corporate Governance

Dealing In Securities

(Listing Manual Rule 1207(19))

Directors and employees have been advised not to deal in the Company's shares on short-term considerations or when they are in possession of unpublished price-sensitive information. They are required to report their dealings in the shares of the Company and are advised from time to time not to deal in the Company's shares during certain periods of the year.

Notifications, in accordance with the SGX Rule 1207(19), are issued to all the directors and employees annually to advise them not to deal in the securities of the Company during the period of one month immediately before the announcement of the Company's half year and full year financial statements.

Profile of Directors and Key Executives

DIRECTORS

Chew Soo Lin

Mr Chew, who is an Executive Director, was appointed Chairman in August 2007.

He is also a member of the Nominating Committee.

Mr Chew qualified as a Chartered Accountant in November 1971 and worked for international accounting firms till 1978, when he joined the Khong Guan Group of Companies, assuming responsibilities in general and financial management.

Mr Chew is an Independent Director of Asia-Pacific Strategic Investments Ltd, China Medical (International) Group Limited, Duty Free International Limited and MTQ Corporation Limited.

Chew Soo Eng

Mr Chew, who is an Executive Director, was appointed Managing Director in January 2007.

Mr Chew graduated with a degree of Bachelor of Commerce (Accounting) from University of Western Australia in 1969. Currently Mr Chew is in charge of the Group's overall business operations. He is also Director of several companies within the Khong Guan Group of Companies and the Managing Director of United Malayan Flour (1996) Sdn Bhd, an associated company.

Tay Kwang Lip Willie

Mr Willie Tay was appointed as a Non-Executive and Independent Director in January 2014.

He is the Lead Independent Director and Chairman of the Audit, Remuneration and Nominating Committees.

Before his retirement at the end of 2015, he was the Managing Director of a certified public accounting corporation and was responsible for the running, managing and developing the assurance, advisory and consultancy business of the corporation.

Mr Tay is a Member of the Institute of Singapore Chartered Accountants, Singapore Institute of Directors and CPA Australia.

Ng Peng Teng Dr

Dr Ng was appointed as a Non-Executive and Independent Director in July 2003.

He is a member of the Audit, Remuneration and Nominating Committees.

Dr Ng is a member of the Institute of Electrical and Electronic Engineers, USA. He graduated with a degree of Bachelor of Science in Electrical Engineering and is a Doctor of Philosophy in Systems Science and Engineering conferred by the Massachusetts Institute of Technology, U.S.A. Dr Ng previously held engineering positions at RCA, GTE and IBM.

Profile of Directors and Key Executives

Sam Teng Choong

Mr Sam was appointed as Director in October 2007.

He is a member of the Audit and Remuneration Committees.

Mr Sam qualified as a Chartered Accountant in 1971 after graduating with a Bachelor of Commerce Degree from University of Liverpool in 1967. He worked as an auditor in an accounting firm in Malaysia before joining Arthur Young & Co., an international firm of accountants as a partner in 1978. He left Arthur Young & Co in 1990 to start his own practice until his retirement in 2005. He is now a secretarial and tax consultant.

He will be retiring from the Board as he does not seek re-election at the annual general meeting.

Chew Kian Boon Daniel

Mr Daniel Chew was appointed as an Executive Director in February 2016.

Mr Daniel Chew has more than 20 years of experience in flour milling operations. His present assignment includes group's procurement of raw materials, shipping freights and logistics for production planning. He currently also holds a senior managerial position in United Malayan Flour (1996) Sdn Bhd.

Mr Chew graduated with a business studies degree from University of Hull, UK in 1998.

KEY MANAGEMENT EXECUTIVES

Chew Soo Lin

Please refer to Directors' profile.

Chew Soo Eng

Please refer to Directors' profile.

Chew Kian Boon Daniel

Please refer to Directors' profile.

Directors' Statement for the financial year ended 31 July 2017

The directors present their statement to the members together with the audited consolidated financial statements of Khong Guan Limited (Formerly known as Khong Guan Flour Milling Limited) (the "Company") and its subsidiaries (collectively, the "Group") for the year ended 31 July 2017 and the statement of financial position of the Company as at 31 July 2017.

OPINION OF THE DIRECTORS

In the opinion of the directors,

(i) the consolidated financial statements of the Group and the statement of financial position of the Company are drawn up so as to give a true and fair view of the financial position of the Group and of the Company as at 31 July 2017 and of the financial performance, changes in equity and cash flows of the Group for the year ended on that date; and

(ii) at the date of this statement, there are reasonable grounds to believe that the Company will be able to pay its debts as and when they fall due.

DIRECTORS

The directors of the Company in office at the date of this statement are:

Chew Soo Lin
Chew Soo Eng
Tay Kwang Lip Willie
Ng Peng Teng Dr
Sam Teng Choong
Chew Kian Boon Daniel

In accordance with Articles 105(C) of the Company's Article of Association, Ng Peng Teng Dr retires and, being eligible, offers himself for re-election.

In accordance with Article 105(C) of the Company's Article of Association, Sam Teng Chong retires and will not be seeking re-election.

ARRANGEMENTS TO ENABLE DIRECTORS TO ACQUIRE SHARES OR DEBENTURES

Neither at the end of nor at any time during the financial year was the Company a party to any arrangement whose objects are, or one of whose objects is, to enable the directors of the Company to acquire benefits by means of the acquisition of shares or debentures of the Company or any other body corporate.

DIRECTORS' INTEREST IN SHARES AND DEBENTURES

The following directors, who held office at the end of the financial year, had, according to the register of directors' shareholdings, required to be kept under section 164 of the Singapore Companies Act, Chapter 50, an interest in the shares of the Company and related corporations (other than wholly-owned subsidiaries) as stated below:

DIRECTORS' INTEREST IN SHARES AND DEBENTURES – *cont'd*

	Number of shares registered in the name of directors and their nominees as at		Other shareholdings in which directors are deemed to have an interest as at	
	01.08.2016	31.07.2017	01.08.2016	31.07.2017
Khong Guan Limited (Formerly known as Khong Guan Flour Milling Limited)				
Chew Soo Lin	6,000	6,000	–	–
Chew Soo Eng	201,666	201,666	19,200	19,200
Ng Peng Teng Dr	200,000	200,000	–	–
Chew Kian Boon Daniel	2,000	2,000	–	–
<u>Subsidiary</u>				
Tong Guan Food Products Sdn. Bhd.				
Chew Soo Lin	4,000	4,000	–	–
Chew Soo Eng	4,000	4,000	168,000	–
Chew Kian Boon Daniel	34,248	34,248	–	–

None of the other directors had interest in the shares of the Company or its related corporations.

No debentures have been issued by the Company.

There were no changes in any of the above-mentioned interests in the Company between the end of the financial year and 21 August 2017.

OPTIONS

During the financial year, no option was granted to take up unissued shares of the Company or corporations in the Group.

During the financial year, there were no shares issued by virtue of the exercise of an option granted to take up unissued shares of the Company or corporations in the Group.

At the end of the financial year, there were no unissued shares of the Company or corporations in the Group under option.

AUDIT COMMITTEE

The audit committee ("AC") carried out its functions in accordance with section 201B (5) of the Singapore Companies Act, Chapter 50, including the following:

- Reviewed the audit plans of the internal and external auditors of the Group and reviewed the internal auditors' evaluation of the adequacy of the system of internal accounting controls and the assistance given by the Group and the Company's management to external and internal auditors

AUDIT COMMITTEE – *cont'd*

- Reviewed the half yearly and annual financial statements and the auditor's report on the annual financial statements of the Group and the Company before their submission to the Board of Directors

- Reviewed effectiveness of the Group's material internal controls, including financial, operational and compliance controls and risk management via reviews carried out by internal auditor

- Met with the external auditor, other committees and management in separate executive sessions to discuss any matters that these groups believe should be discussed privately with the AC

- Reviewed legal and regulatory matters that may have a material impact on the financial statements, related compliance policies and programmes and any reports received from regulators

- Reviewed the cost effectiveness and the independence and objectivity of the external auditor

- Reviewed the nature and extent of non-audit services provided by the external auditor

- Recommended to the board of directors the external auditor to be nominated, approved the compensation of the external auditor and reviewed the scope and results of the audit

- Reviewed interested person transactions in accordance with the requirements of the Singapore Exchange Securities Trading Limited's Listing Manual

The AC, having reviewed all non-audit services provided by the external auditor to the Group, is satisfied that the nature and extent of such services would not affect the independence of the external auditor. The AC has also conducted a review of interested person transactions.

The AC convened three meetings during the year with full attendance from all members. The AC has also met with internal and external auditors, without the presence of the Company's management, at least once a year.

Further details regarding the AC are disclosed in the Report on Corporate Governance.

AUDITOR

The independent auditor, RT LLP, has expressed its willingness to accept re-appointment.

On behalf of the Board of Directors

Chew Soo Lin
Director

Chew Soo Eng
Director

Singapore, 23 October 2017

Independent Auditor's Report To The Members Of Khong Guan Limited (Formerly Known As Khong Guan Flour Milling Limited) For The Financial Year Ended 31 July 2017

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Khong Guan Limited (the "Company") and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position of the Group and the statement of financial position of the Company as at 31 July 2017, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows of the Group for the year then ended, and the notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements of the Group and the statement of financial position of the Company are properly drawn up in accordance with the provisions of the Companies Act, Chapter 50 (the "Act") and Financial Reporting Standards in Singapore ("FRSs") so as to give a true and fair view of the consolidated financial position of the Group and the financial position of the Company as at 31 July 2017 and of the consolidated financial performance, consolidated changes in equity and consolidated cash flows of the Group for the year ended on that date.

Basis for Opinion

We conducted our audit in accordance with Singapore Standards on Auditing ("SSAs"). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Group in accordance with the Accounting and Corporate Regulatory Authority ("ACRA") *Code of Professional Conduct and Ethics for Public Accountants and Accounting Entities* ("ACRA Code") together with the ethical requirements that are relevant to our audit of the financial statements in Singapore, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the ACRA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key Audit Matters – *cont'd*

<table>
<tr><th>Key audit matters</th><th>How the matter was addressed in the audit</th></tr>
<tr><td>
1) Recoverability of receivables and reasonableness of allowance for impairment
The Group has trade receivables amounting to $10,556,960 (2016: $11,460,834). Allowance on impairment of receivables made were $442,507 (2016: $11,506). Details of the trade receivables are disclosed in Note 11.
The management assessed at the end of each respective period whether there is any objective evidence that the recoverability of a receivable is doubtful.
Out of the allowance on impairment of receivables of $442,507, an aggregate amount of $432,064 required significant attention from us in performing the audit due to the significant management judgement involved.
The $432,064 relates to receivables from two companies as further elaborated below.
<u>Kilang Bihun Bersatu Sdn Bhd and Rasayang Food Industries Sdn Bhd</u>
One of its subsidiaries, Swee Hin Chan Company Sdn. Berhad has made allowance on impairment of its receivables from two of the its receivables, Kilang Bihun Bersatu Sdn Bhd and Rasayang Food Industries Sdn Bhd, which are subsidiaries of Eka Noodles Berhad ("EKA Group"), amounting to RM1,315,378 (equivalent to $416,712) and RM48,460 (equivalent to $15,352) respectively as at 31 July 2017. The outstanding balances owing from the two receivables were aged between 6 to 12 months as at 31 July 2017. These outstanding balances comprised primarily of sales made to these customers in the current financial year.
We have reviewed the component auditor's working papers. We noted that the management issued letter of demand to both of the trade receivables to demand for repayment of the amount outstanding on 6 January 2017 and 19 January 2017, via solicitors.
The holding company, EKA Group is a listed company on Bursa Malaysia. On 30 August 2016, EKA Group had been declared a PN17 company and the High Courts of Malaysia had also granted an order to EKA Group to hold a meeting with its creditors and members of EKA Group within a period of 180 days from 28 March 2017. As at the date of audit, EKA group has yet to communicate the date of meeting.
Hence, the management has assessed the recoverability of the above-mentioned debtors based on financial condition of EKA Group, recent repayment trend of the two receivables, latest press articles, and announcements made by EKA group via Bursa Malaysia, as well as other information obtained from discussion with the management regarding the two receivables. It was also noted that there had been no subsequent collections after 31 December 2016.
The management is of the view that the amounts due from those two receivables may not be collectible. As such, the management has made an allowance for impairment of the entire balances of those two receivables as at 31 July 2017.
</td><td>
Our audit procedures focused on evaluating the management's impairment assessment of those receivables. These procedures include:

Evaluated the debtors' ability to make repayments by assessing their financial position.
Assessed the management's assessment based on aging analysis of outstanding accounts, payment history of these debtors through past repayments and enquiring the management of any disputes.
Reviewed component auditor's working papers on work done on receivables and their assessment on the impairment of receivables.

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Independent Auditor's Report To The Members Of Khong Guan Limited (Formerly Known As Khong Guan Flour Milling Limited) For The Financial Year Ended 31 July 2017

Information Other than the Financial Statements and Auditor's Report Thereon

Management is responsible for the other information. The other information comprises the information listed below that is included in the Annual Report, but does not include the financial statements and our auditor's report thereon.

Corporate Information;
Chairman's Statement;
Group Financial Highlights;
Group Structure;
Corporate Governance;
Profile of Directors and Key Executive; and
Directors' Statement

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management and Directors for the Financial Statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with the provisions of the Act and FRSs, and for devising and maintaining a system of internal accounting controls sufficient to provide a reasonable assurance that assets are safeguarded against loss from unauthorised use or disposition; and transactions are properly authorised and that they are recorded as necessary to permit the preparation of true and fair financial statements and to maintain accountability of assets.

In preparing the financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

The directors' responsibilities include overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with SSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Auditor's Responsibilities for the Audit of the Financial Statements – *cont'd*

As part of an audit in accordance with SSAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

Auditor's Responsibilities for the Audit of the Financial Statements – *cont'd*

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on Other Legal and Regulatory Requirements

In our opinion, the accounting and other records required by the Act to be kept by the Company and by those subsidiary corporations incorporated in Singapore of which we are the auditors have been properly kept in accordance with the provisions of the Act.

The engagement partner on the audit resulting in this independent auditor's report is Mr. Su Chun Keat.

RT LLP
Public Accountants and
Chartered Accountants

Singapore, 23 October 2017

Statements of Financial Position as at 31 July 2017

	Note	GROUP 2017 $	GROUP 2016 $	COMPANY 2017 $	COMPANY 2016 $
ASSETS AND LIABILITIES					
Non-Current Assets					
Property, plant and equipment	3	3,294,726	3,671,847	342,071	380,820
Prepaid lease	4	1,485,290	1,599,066	—	—
Investment property	5	9,467,616	5,111,322	9,467,616	5,111,322
Investments in subsidiaries	6	—	—	18,287,368	18,287,368
Investments in associates	7	18,321,866	17,868,652	—	—
Long-term investments	8	22,493	929,067	—	905,616
		32,591,991	29,179,954	28,097,055	24,685,126
Current Assets					
Inventories	9	6,872,336	6,488,974	—	—
Short-term investments	10	5,836,318	7,265,440	—	—
Trade receivables	11	10,114,453	11,449,328	480,303	485,891
Other receivables	12	570,144	335,233	228,277	200,029
Tax recoverable		332,739	150,156	—	—
Amounts owing by subsidiaries	13	—	—	5,415,299	5,277,299
Fixed deposits	14	9,352,045	14,392,358	9,282,195	14,321,655
Cash and bank balances	15	5,370,148	3,097,488	894,458	825,358
		38,448,183	43,178,977	16,300,532	21,110,232
Less: Current Liabilities					
Trade payables	16	4,533,892	5,513,128	268,687	204,855
Other payables	17	1,425,225	888,606	981,694	510,189
		5,959,117	6,401,734	1,250,381	715,044
Net Current Assets		32,489,066	36,777,243	15,050,151	20,395,188
Less: Non-Current Liabilities					
Provision for retirement benefits	19	237,538	307,223	237,538	307,223
Deferred tax liabilities	20	487,919	514,586	—	—
		725,457	821,809	237,538	307,223
Net Assets		64,355,600	65,135,388	42,909,668	44,773,091
EQUITY					
Share capital	21	33,278,673	33,278,673	33,278,673	33,278,673
Capital reserves	22	190,379	140,790	—	—
Foreign currency translation reserves		(10,475,817)	(9,102,383)	—	—
Retained profits		39,000,909	38,478,910	9,630,995	11,494,418
Attributable to equity holders of the Company		61,994,144	62,795,990	42,909,668	44,773,091
Non-controlling interests		2,361,456	2,339,398	—	—
Total Equity		64,355,600	65,135,388	42,909,668	44,773,091

The accompanying notes form an integral part of these financial statements.

Consolidated Statement of Comprehensive Income
for the financial year ended 31 July 2017

	Note	2017 $	2016 $
Revenue	23	57,111,019	58,708,356
Other income	24	263,696	289,389
Changes in short-term investments		(1,429,122)	(581,168)
Changes in inventories		662,500	810,367
Purchases of short-term investments		(1,574,256)	(1,331,277)
Purchases of inventories		(47,757,922)	(51,900,735)
Employee benefits expense		(3,844,438)	(3,907,092)
Depreciation and amortisation expenses			
- property, plant and equipment	3	(454,959)	(503,153)
- prepaid lease	4	(49,458)	(51,668)
Finance costs	25	(284)	(4,860)
Share of results of associates, net of tax	7	1,839,338	1,596,416
Other expenses		(2,796,435)	(2,301,304)
Profit before tax	25	1,969,679	823,271
Income tax expense	26	(481,944)	(536,040)
Profit for the financial year		1,487,735	287,231
Profit for the financial year attributable to:			
Equity holders of the Company		1,296,375	58,421
Non-controlling interests		191,360	228,810
		1,487,735	287,231
Earnings per share for profit attributable to equity holders of the Company (in cents)			
Basic and diluted	27	5.02	0.23

The accompanying notes form an integral part of these financial statements.

Consolidated Statement of Comprehensive Income
for the financial year ended 31 July 2017

	Note	2017 $	2016 $
Profit for the financial year		1,487,735	287,231
Other comprehensive income:			
Items that may be subsequently reclassified to profit or loss:			
Share of associate's capital reserve	22	49,589	36,344
Translation differences relating to financial statements of foreign operations		(1,471,575)	(2,875,500)
Other comprehensive income, net of tax		(1,421,986)	(2,839,156)
Total comprehensive income for the financial year		65,749	(2,551,925)
Total comprehensive income attributable to:			
Equity holders of the Company		(27,470)	(2,590,871)
Non-controlling interests		93,219	38,946
		65,749	(2,551,925)

The accompanying notes form an integral part of these financial statements.

Consolidated Statement of Changes In Equity
for the financial year ended 31 July 2017

	Note	Share capital $	Capital reserves $	Foreign currency translation reserves $	Retained profits $	Total attributable to equity holders of the Company $	Non-controlling interests $	Total equity $
At 1 August 2015		33,278,673	104,446	(6,416,747)	39,194,865	66,161,237	2,373,987	68,535,224
Profit for the financial year		–	–	–	58,421	58,421	228,810	287,231
Other comprehensive income for the financial year		–	36,344	(2,685,636)	–	(2,649,292)	(189,864)	(2,839,156)
Total comprehensive income for the financial year		–	36,344	(2,685,636)	58,421	(2,590,871)	38,946	(2,551,925)
Dividends paid by								
- the Company	28	–	–	–	(774,376)	(774,376)	–	(774,376)
- subsidiaries to non-controlling interests		–	–	–	–	–	(73,535)	(73,535)
At 31 July 2016		33,278,673	140,790	(9,102,383)	38,478,910	62,795,990	2,339,398	65,135,388
Profit for the financial year		–	–	–	1,296,375	1,296,375	191,360	1,487,735
Other comprehensive income for the financial year		–	49,589	(1,373,434)	–	(1,323,845)	(98,141)	(1,421,986)
Total comprehensive income for the financial year		–	49,589	(1,373,434)	1,296,375	(27,470)	93,219	65,749
Dividends paid by								
- the Company	28	–	–	–	(774,376)	(774,376)	–	(774,376)
- subsidiaries to non-controlling interests		–	–	–	–	–	(71,161)	(71,161)
At 31 July 2017		33,278,673	190,379	(10,475,817)	39,000,909	61,994,144	2,361,456	64,355,600

The accompanying notes form an integral part of these financial statements.

Consolidated Statement of Cash Flows
for the financial year ended 31 July 2017

	2017 $	2016 $
Cash flows from operating activities:		
Profit before tax	1,969,679	823,271
Adjustments for non-cash and other items:		
Allowance for doubtful trade receivables	441,338	11,023
Bad debts written off	–	8,790
Depreciation and amortisation expenses	504,417	554,821
Fair value (gain)/loss on short-term investments	(286,501)	811,997
Loss on disposal of a subsidiary's associate	41,245	–
Loss/(Gain) on disposal of long-term unquoted investment	184,816	(4,287)
Gain on disposal of a sub-subsidiary	(198)	–
Gain on disposal of property, plant and equipment	(2,093)	(31,768)
Interest expense	284	4,860
Interest income	(134,161)	(158,900)
Provision for retirement benefits	20,432	26,100
Reversal of allowance for doubtful trade receivables	(606)	(2,570)
Share of results of associates, net of tax	(1,839,338)	(1,596,416)
	(1,070,365)	(376,350)
Operating profit before working capital changes	899,314	446,921
Decrease/(Increase) in short-term investments	1,715,623	(230,829)
Increase in inventories	(662,500)	(810,367)
Decrease/(Increase) in trade and other receivables	30,602	(1,862,608)
(Decrease)/Increase in trade and other payables	(228,629)	1,157,777
	855,096	(1,746,027)
Cash generated from/(used in) operations	1,754,410	(1,299,106)
Income tax paid	(504,635)	(784,527)
Interest paid	(284)	(4,860)
Interest received	134,161	158,900
Payment of retirement benefits	(90,117)	(31,433)
	(460,875)	(661,920)
Net cash generated from/(used in) operating activities	1,293,535	(1,961,026)
Cash flows from investing activities:		
Purchases of property, plant and equipment	(172,470)	(834,440)
Addition to investment property	(4,356,294)	(894,071)
Proceeds from disposal of property, plant and equipment	2,093	221,996
Proceeds from disposal of long-term unquoted investment	720,800	4,287
Proceeds from disposal of a subsidiary's associate	114,506	–
Dividends received from associates	536,424	524,442
Net cash used in investing activities	(3,154,941)	(977,786)
	(1,861,406)	(2,938,812)

Consolidated Statement of Cash Flows
for the financial year ended 31 July 2017

	2017 $	2016 $
Cash flows from financing activities:		
Dividends paid by the Company	(774,376)	(774,376)
Dividends paid by subsidiaries to non-controlling interests	(71,161)	(73,535)
Net cash used in financing activities	(845,537)	(847,911)
Net decrease in cash and cash equivalents	(2,706,943)	(3,786,723)
Cash and cash equivalents at beginning of the financial year	17,489,846	21,396,981
Effects of currency translations on cash and cash equivalents	(60,710)	(120,412)
Cash and cash equivalents at end of the financial year (Note 29)	14,722,193	17,489,846

A sub-subsidiary company, Sasinco Sdn. Bhd., was in the process of voluntary winding up during the financial year and the liquidation was effected on 28 July 2017. The effects of the disposal on the cash flows of the Group were:

<u>Carrying amounts of assets and liabilities disposed of</u>

Tax liability	(198)
Amount owing by immediate holding company	69,256
Net assets disposed of	69,058

The aggregate cash inflows arising from the disposal of Sasinco Sdn. Bhd. were:

Net assets disposed of (as above)	69,058
Gain on disposal	198
Cash proceeds from disposal	69,256
Less: Amount owing by immediate holding company in sub-subsidiary disposed of	(69,256)
Net cash inflow on disposal	–

The accompanying notes form an integral part of these financial statements.

These notes form an integral part of and should be read in conjunction with the accompanying financial statements.

1. GENERAL INFORMATION

The Company is a limited liability company listed on the Singapore Exchange Securities Trading Limited. It is incorporated and domiciled in the Republic of Singapore with the registered office and principal place of business at 85 Playfair Road, #07-01 Tong Yuan Industrial Building, Singapore 368000.

With effect from 25 November 2016, the name of the Company was changed from Khong Guan Flour Milling Limited to Khong Guan Limited.

The principal activities of the Company are the trading of wheat flour and other edible products and investment holding.

The principal activities of the subsidiaries are set out in Note 6.

The consolidated financial statements of the Group and the statement of financial position of the Company were authorised for issue in accordance with a resolution of the directors on the date of the Directors' Statement.

2. SIGNIFICANT ACCOUNTING POLICIES

2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with Singapore Financial Reporting Standards ("FRS"). The financial statements have been prepared under the historical cost convention except as disclosed in the accounting policies below.

The preparation of financial statements in conformity with FRS requires management to exercise judgement in the process of applying the Group's accounting policies. It also requires the use of certain critical accounting estimates, assumptions and judgements. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in Note 2.3.

2.2 CHANGES IN ACCOUNTING POLICIES

On 1 August 2016, the Group adopted the new or amended FRS and Interpretations to FRS ("INT FRS") that are mandatory for application from that date. Changes to the Group's accounting policies have been made as required, in accordance with the transitional provisions in the respective FRS and INT FRS.

The adoption of these new or amended FRS and INT FRS did not result in substantial changes to the Group's and Company's accounting policies and had no material effect on the amounts reported for the current or prior financial years.

2.3 SIGNIFICANT ACCOUNTING ESTIMATES, ASSUMPTIONS AND JUDGEMENTS

Estimates, assumptions and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

2. SIGNIFICANT ACCOUNTING POLICIES – *cont'd*

2.3 SIGNIFICANT ACCOUNTING ESTIMATES, ASSUMPTIONS AND JUDGEMENTS – *cont'd*

(a) Critical accounting estimates and assumptions

(i) Depreciation of investment property and property, plant and equipment

The cost, less the residual values, of investment property and property, plant and equipment are depreciated on the straight-line method over their estimated economic useful lives. Management estimates the economic useful lives of these assets to be within 5 to 999 years. As changes in the expected level of usage and technological developments could impact the economic useful lives and the residual values of these assets, future depreciation charges could be revised. The carrying amounts of the Group's property, plant and equipment and investment property are disclosed in Notes 3 and 5 respectively.

(ii) Allowance for inventory obsolescence

At the end of the reporting period, the Group assesses whether any allowance for inventory obsolescence is required based on the best available facts and circumstances, including but not limited to, the inventories' physical conditions, age of inventories, their market selling prices, and estimated costs to be incurred for their sales. An amount of estimation is required to determine the inventory obsolescence. The allowances are re-evaluated and adjusted when additional information are received which affects the amount estimated.

As at the reporting date, there is no allowance made for inventory obsolescence.

(iii) Allowance for doubtful trade receivables

The Group assesses at the end of each reporting period whether there is any objective evidence that the recoverability of a receivable is doubtful. The determination of allowance for doubtful receivables is based on the review of the ageing analysis of outstanding accounts, past collection and payment history and the current financial status of each customer for any objective evidence that the debts is not recoverable. A considerable amount of estimation is required to determine the ultimate realisation of these receivables.

The carrying amounts of trade receivables and the allowance for doubtful trade receivables are disclosed in Note 11.

(iv) Income tax

The Group has exposure to income taxes in various jurisdictions. Significant judgement is involved in determining the Group's provision for income taxes. There are certain transactions and computations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognises liabilities for expected tax issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recognised, such differences will impact the current income tax and deferred income tax provision in the financial year in which such determination is made.

2. SIGNIFICANT ACCOUNTING POLICIES – *cont'd*

2.3 SIGNIFICANT ACCOUNTING ESTIMATES, ASSUMPTIONS AND JUDGEMENTS – *cont'd*

(a) Critical accounting estimates and assumptions – *cont'd*

(iv) Income tax – *cont'd*

The Group is subject to income taxes in various jurisdictions. In determining the income tax liabilities, management is required to estimate the amount of capital allowances and the deductibility of certain expenses ("uncertain tax positions") at each tax jurisdiction.

(b) Critical judgements in applying the Group's accounting policies

Impairment of available-for-sale financial assets

Equity investment at cost

The Group follows the guidance of FRS 39 in determining when an available-for-sale financial asset is considered impaired. This determination requires significant judgement. Management reviews any objective evidence of impairment on an annual basis. Where there is objective evidence of impairment, management makes judgement as to whether an impairment loss should be recorded in profit or loss. The carrying amount of the financial assets, available-for-sale at cost affected by the judgement is $22,493 (2016: $929,067).

The cumulative amount of impairment loss recognised for the Group's available-for-sale financial assets was $6,336 (2016: $346,494) (Note 8).

2.4 GROUP ACCOUNTING

(a) Subsidiaries

(i) Consolidation

Subsidiaries are all entities (including structured entities) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date on which that control ceases.

In preparing the consolidated financial statements, transactions, balances and unrealised gains on transactions between Group entities are eliminated. Unrealised losses are also eliminated but are considered an impairment indicator of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

2. SIGNIFICANT ACCOUNTING POLICIES – *cont'd*

2.4 GROUP ACCOUNTING – *cont'd*

(a) Subsidiaries - *cont'd*

(i) Consolidation - *cont'd*

Non-controlling interests comprise the portion of a subsidiary's net results of operations and its net assets, which is attributable to the interests that are not owned directly or indirectly by the equity holders of the Company. They are shown separately in the consolidated statement of comprehensive income, consolidated statement of changes in equity and statements of financial position. Total comprehensive income is attributed to the non-controlling interests based on their respective interests in a subsidiary, even if this results in the non-controlling interests having a deficit balance.

(ii) Acquisition of businesses

The acquisition method of accounting is used to account for business combinations by the Group.

The consideration transferred for the acquisition of a subsidiary comprises the fair value of the assets transferred, the liabilities incurred and the equity interests issued by the Group. The consideration transferred also includes the fair value of any contingent consideration arrangement.

Acquisition-related costs are expensed as incurred.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are, with limited exceptions, measured initially at their fair values at the acquisition date.

On an acquisition-by-acquisition basis, the Group recognises any non-controlling interest in the acquiree at the date of acquisition either at fair value or at the non-controlling interest's proportionate share of the acquiree's net identifiable assets.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the net identifiable assets acquired is recorded as goodwill.

2. SIGNIFICANT ACCOUNTING POLICIES – *cont'd*

2.4 GROUP ACCOUNTING – *cont'd*

(a) Subsidiaries - *cont'd*

(iii) Disposals of subsidiaries or businesses

When a change in the Company's ownership interest in a subsidiary results in a loss of control over the subsidiary, the assets and liabilities of the subsidiary including any goodwill are derecognised. Amounts recognised in other comprehensive income in respect of that entity are also reclassified to profit or loss or transferred directly to retained earnings if required by a specific standard.

Any retained interest in the entity is remeasured at fair value. The difference between the carrying amount of the retained investment at the date when control is lost and its fair value is recognised in profit or loss.

Please refer to Note 2.7 for the accounting policy on investments in subsidiaries in the separate financial statements of the Company.

(b) Transactions with non-controlling interests

Changes in the Company's ownership interest in a subsidiary that do not result in a loss of control over the subsidiary are accounted for as transactions with equity owners of the Group. Any difference between the change in the carrying amounts of the non-controlling interest and the fair value of the consideration paid or received is recognised directly in retained profits.

(c) Associates

Associates are entities over which the Group has significant influence, but not control, and generally accompanied by a shareholding giving rise to voting rights of 20% and above but not exceeding 50%. Investments in associates are accounted for in the consolidated financial statements using the equity method of accounting less impairment losses, if any.

Investments in associates are initially recognised at cost. The cost of an acquisition is measured at the fair value of the assets given, equity instruments issued or liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Goodwill on associates represents the excess of the cost of acquisition of the associate over the Group's share of the fair value of the identifiable net assets of the associate and is included in the carrying amount of the investments.

In applying the equity method of accounting, the Group's share of its associates' post-acquisition profits or losses are recognised in profit or loss and its share of post-acquisition other comprehensive income is recognised in other comprehensive income. These post-acquisition movements and distributions received from the associates are adjusted against the carrying amount of the investment. Dividends received from associates are recognised as a reduction of the carrying amounts of the investments. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured non-current receivables, the Group does not recognise further losses, unless it has obligations or has made payments on behalf of the associate.

2. SIGNIFICANT ACCOUNTING POLICIES – *cont'd*

2.4 GROUP ACCOUNTING – *cont'd*

(c) Associates - *cont'd*

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. The accounting policies of associates have been changed where necessary to ensure consistency with the accounting policies adopted by the Group.

Gains and losses arising from partial disposals or dilutions in investments in associates are recognised in profit or loss.

Investments in associates are derecognised when the Group loses significant influence. Any retained interest in the entity is remeasured at its fair value. The difference between the carrying amount of the retained interest at the date when significant influence is lost and its fair value is recognised in profit or loss.

Please refer to Note 2.7 for the accounting policy on investments in associates in the separate financial statements of the Company.

2.5 PROPERTY, PLANT AND EQUIPMENT

(a) Measurement

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses if any, except for certain leasehold land and buildings that are carried at their revalued amounts in 1982, less subsequent accumulated depreciation. The revaluation was based on valuation reports of independent professional valuers using the open market value basis.

In accordance with the relevant accounting standards, an entity that had revalued its property, plant and equipment before 1 January 1984 (in accordance with the prevailing accounting standard at that time); or performed any one-off revaluation on its property, plant and equipment between 1 January 1984 and 31 December 1996 (both dates inclusive), there will be no need for the entity to revalue its assets in accordance with the standard.

The cost of an item of property, plant and equipment initially recognised includes its purchase price and any cost that is directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

(b) Depreciation

Depreciation is calculated using the straight-line method to allocate their depreciable amounts over their estimated useful lives. The estimated useful lives are as follows:

	Years
Leasehold land	924
Leasehold building	50
Leasehold land and buildings	25 to 999
Motor vehicles	5 to 10
Office equipment and fittings	5 to 10

2. SIGNIFICANT ACCOUNTING POLICIES – *cont'd*

2.5 PROPERTY, PLANT AND EQUIPMENT – *cont'd*

(b) Depreciation - *cont'd*

The residual values, estimated useful lives and depreciation method of property, plant and equipment are reviewed, and adjusted as appropriate, at the end of each reporting period. The effects of any revision are recognised in profit or loss when the changes arise.

Fully depreciated assets still in use are retained in the financial statements.

(c) Subsequent expenditure

Subsequent expenditure relating to property, plant and equipment that has already been recognised is added to the carrying amount of the asset only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repair and maintenance expenses are recognised in profit or loss when incurred.

(d) Disposal

On disposal of an item of property, plant and equipment, the difference between the net disposal proceeds and its carrying amount is recognised in profit or loss.

2.6 INVESTMENT PROPERTY

An investment property is a property held either to earn rental income and/or for capital appreciation rather than for use in production or supply of goods or services or for administrative purposes.

An investment property is initially recognised at cost and subsequently carried at cost less accumulated depreciation and any accumulated impairment losses. Depreciation is calculated using the straight-line method to allocate the depreciable amounts of the investment property over the estimated useful lives as follows:

	Years
Building	50

No depreciation is provided on freehold land.

The residual values, useful lives and depreciation method of investment property are reviewed, and adjusted as appropriate, at the end of each reporting period. The effects of any revision are recognised in profit or loss when the changes arise.

On disposal of an investment property, the difference between the disposal proceeds and the carrying amount is recognised in profit or loss.

2.7 INVESTMENTS IN SUBSIDIARIES AND ASSOCIATES

Investments in subsidiaries and associates are carried at cost less any accumulated impairment losses in the Company's statement of financial position. On disposal of investments in subsidiaries and associates, the difference between disposal proceeds and the carrying amounts of the investments are recognised in profit or loss.

2. SIGNIFICANT ACCOUNTING POLICIES – *cont'd*

2.8 FINANCIAL ASSETS

(a) Classification

The Group classifies its financial assets in the following categories: at fair value through profit or loss, loans and receivables, and available-for-sale. The classification depends on the purpose for which the assets were acquired. Management determines the classification of its financial assets at initial recognition.

(i) Financial assets, at fair value through profit or loss

A financial asset is classified as held for trading if it is acquired principally for the purpose of selling in the short term. Short-term investments are classified in this category and are presented as current assets in the statement of financial position.

(ii) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are presented as current assets, except for those maturing later than 12 months after the end of the reporting period which are presented as non-current assets. Loans and receivables are presented as "trade receivables", "other receivables", "fixed deposits", "cash and bank balances" and "amounts owing by subsidiaries" on the statement of financial position.

(iii) Financial assets, available-for-sale

Financial assets, available-for-sale, are non-derivatives that are either designated in this category or not classified in any of the other categories. Long-term investments are classified in this category and are presented as non-current assets unless management intends to dispose of the assets within 12 months after the end of the reporting period.

(b) Recognition and derecognition

Regular way purchases and sales of financial assets are recognised on trade-date – the date on which the Group commits to purchase or sell the asset.

Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. On disposal of a financial asset, the difference between the carrying amount and the sale proceeds is recognised in profit or loss. Any amount in the fair value reserve relating to that asset is reclassified to the consolidated statement of comprehensive income.

(c) Initial measurement

Financial assets are initially recognised at fair value plus transaction costs except for financial assets at fair value through profit or loss, which are recognised at fair value. Transaction costs for financial assets at fair value through profit or loss are recognised immediately as expenses.

2. SIGNIFICANT ACCOUNTING POLICIES – *cont'd*

2.8 FINANCIAL ASSETS – *cont'd*

(d) Subsequent measurement

Financial assets, at fair value through profit or loss are subsequently carried at fair value. Loans and receivables are subsequently carried at amortised cost using the effective interest method.

Unquoted equity securities are subsequently carried at fair value unless their fair values cannot be reliably measured in which case, they are carried at cost less impairments, if any.

Changes in the fair values of financial assets at fair value through profit or loss including the effects of currency translation are recognised in profit or loss when the changes arise.

Interest and dividend income on financial assets, available-for-sale are recognised separately in profit or loss when available-for-sale equity securities are carried at fair value. Changes in their fair values (i.e. non-monetary items) are recognised in the fair value reserve, together with the related currency translation differences.

(e) Impairment

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired and recognises an allowance for impairment when such evidence exists.

(i) Loans and receivables

Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy, and default or significant delay in payments are objective evidence that these financial assets are impaired.

The carrying amount of these assets is reduced through the use of an impairment allowance account which is calculated as the difference between the carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. When the asset becomes uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are recognised against the same line item in profit or loss.

The allowance for impairment loss account is reduced through profit or loss in a subsequent period when the amount of impairment loss decreases and the related decrease can be objectively measured. The carrying amount of the asset previously impaired is increased to the extent that the new carrying amount does not exceed the amortised cost had no impairment been recognised in prior periods.

2. SIGNIFICANT ACCOUNTING POLICIES – *cont'd*

2.8 FINANCIAL ASSETS – *cont'd*

(e) Impairment - *cont'd*

(ii) Financial assets, available-for-sale (carried at cost)

If there is objective evidence (such as significant adverse changes in the business environment where the issuer operates, probability of insolvency or significant financial difficulties of the issuer) that an impairment loss on financial assets carried at cost had been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses are not reversed in subsequent periods.

2.9 INVENTORIES

Inventories are carried at the lower of cost and net realisable value. Cost is determined using the first-in, first-out method. Cost includes all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition. A write down on cost is made when the cost is not recoverable or if their selling prices have declined. Allowance is made for deteriorated, damaged, obsolete and slow moving stocks.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

2.10 CASH AND CASH EQUIVALENTS

Cash and bank balances are defined as cash on hand, demand deposits and short-term, highly liquid investments readily convertible to known amounts of cash and subject to insignificant risk of changes in value. Cash on hand and in banks and short-term deposits which are held to maturity are carried at cost.

For the purposes of presentation in the consolidated statement of cash flows, cash and cash equivalents include cash on hand and deposits with financial institutions which are subject to an insignificant risk of change in value and bank overdrafts. Bank overdrafts are presented as current borrowings on the statement of financial position.

2.11 FINANCIAL LIABILITIES

Financial liabilities are recognised in the statement of financial position when the Group becomes a party to the contractual agreements of the financial instrument and are classified according to the substance of the contractual agreements entered into. Financial liabilities are initially stated at cost which is the fair value plus direct attributable transaction costs, and subsequently measured at amortised cost using the effective interest method. Financial liabilities include trade payables and other payables.

2. SIGNIFICANT ACCOUNTING POLICIES – *cont'd*

2.11 FINANCIAL LIABILITIES – *cont'd*

The financial liability is derecognised when the obligation under the liability is discharged or cancelled or has expired. The gains or losses are recognised in profit or loss when the liabilities are derecognised, and through the amortisation process. All interest-related charges are recognised in profit or loss.

2.12 FAIR VALUE ESTIMATION OF FINANCIAL ASSETS AND LIABILITIES

The fair values of financial instruments traded in active markets (such as exchange traded and over-the-counter securities and derivatives) are based on quoted market prices at the end of the reporting period. The quoted market prices used for financial assets are the current bid prices; the appropriate quoted market prices for financial liabilities are the current asking prices.

The fair values of current financial assets and liabilities carried at amortised cost approximate their carrying amounts.

2.13 IMPAIRMENT OF NON-FINANCIAL ASSETS

Property, plant and equipment, investment property, investments in subsidiaries and associates are tested for impairment whenever there is any objective evidence or indication that these assets may be impaired.

For the purpose of impairment testing, the recoverable amount (i.e. the higher of the fair value less cost to sell and the value-in-use) is determined on an individual asset basis unless the asset does not generate cash inflows that are largely independent of those from other assets. If this is the case, the recoverable amount is determined for the Cash-Generating Unit ("CGU") to which the asset belongs.

If the recoverable amount of the asset (or CGU) is estimated to be less than its carrying amount, the carrying amount of the asset (or CGU) is reduced to its recoverable amount.

The difference between the carrying amount and recoverable amount is recognised as an impairment loss in profit or loss, unless the asset is carried at revalued amount, in which case, such impairment loss is treated as a revaluation decrease. Please refer to the paragraph "Property, plant and equipment" for the treatment of a revaluation decrease.

An impairment loss for an asset is reversed if, and only if, there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. The carrying amount of this asset is increased to its revised recoverable amount, provided that this amount does not exceed the carrying amount that would have been determined (net of any accumulated amortisation or depreciation) had no impairment loss been recognised for the asset in prior years.

2. SIGNIFICANT ACCOUNTING POLICIES – *cont'd*

2.13 IMPAIRMENT OF NON-FINANCIAL ASSETS – *cont'd*

A reversal of impairment loss for an asset is recognised in profit or loss, unless the asset is carried at revalued amount, in which case, such reversal is treated as a revaluation increase. However, to the extent that an impairment loss on the same revalued asset was previously recognised as an expense, a reversal of that impairment is also credited to profit or loss.

2.14 INCOME TAX

Current income tax for current and prior periods is recognised at the amount expected to be paid to or recovered from the tax authorities, using the tax rates and tax laws that have been enacted or substantively enacted at the end of the reporting period.

Deferred income tax is recognised for all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements except when the deferred income tax arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and affects neither accounting nor taxable profit or loss at the time of the transaction.

A deferred income tax liability is recognised on temporary differences arising on investments in subsidiaries and associates, except where the Group is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

A deferred income tax asset is recognised to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences and tax losses can be utilised.

Deferred income tax is measured:

(i) at the tax rates that are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted at the end of the reporting period; and

(ii) based on the tax consequence that will follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amounts of its assets and liabilities.

Current and deferred income taxes are recognised as income or expense in profit or loss, except to the extent that the tax arises from a business combination or a transaction which is recognised directly in other comprehensive income. Deferred tax arising from a business combination is adjusted against goodwill on acquisition.

2.15 CORPORATE GUARANTEES

Corporate guarantees are initially recognised at their fair values plus transaction costs in the Company's statement of financial position.

Corporate guarantees are subsequently amortised to profit or loss over the period of the subsidiaries' borrowings, unless it is probable that the Company will reimburse the bank for an amount higher than the unamortised amount. In this case, the corporate guarantees shall be carried at the expected amount payable to the bank in the Company's statement of financial position.

2. **SIGNIFICANT ACCOUNTING POLICIES** – *cont'd*

2.16 CURRENCY TRANSLATION

(a) Functional and presentation currency

Items included in the financial statements of each entity in the Group are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The financial statements are presented in Singapore Dollar ("$"), which is the functional and presentation currency of the Company.

(b) Transactions and balances

Transactions in a currency other than the functional currency ("foreign currency") are translated into the functional currency using the exchange rates at the dates of the transactions. Currency translation differences resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at the closing rates at the end of the reporting period are recognised in profit or loss.

Non-monetary items that are measured at fair values in foreign currencies are translated using the exchange rates at the date when the fair values are determined.

(c) Translation of Group entities' financial statements

The results and financial position of all the Group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency of the Company are translated into the presentation currency as follows:

(i) Assets and liabilities are translated at the closing exchange rate at the end of the reporting period;

(ii) Income and expenses are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and

(iii) All resulting currency translation differences are recognised in the foreign currency translation reserve.

2.17 SHARE CAPITAL

Ordinary shares are classified as equity. Incremental costs directly attributable to the issuance of new ordinary shares are deducted against the share capital account.

2.18 DIVIDENDS TO COMPANY'S SHAREHOLDERS

Dividends to the Company's shareholders are recognised when the dividends are approved for payment.

2. SIGNIFICANT ACCOUNTING POLICIES – *cont'd*

2.19 REVENUE RECOGNITION

The Group recognises revenue when the amount of revenue and related costs can be reliably measured, when it is probable that the collectability of the related receivables is reasonably assured and when the specific criteria for each of the Group's activities are met as follows:

(a) Sale of goods – Trading income

Sale of goods is recognised upon the transfer of significant risk and rewards of ownership of the goods to the customer which generally coincides with delivery and acceptance of the goods sold.

(b) Interest income

Interest income is recognised using the effective interest method.

(c) Dividend income

Dividend income is recognised when the right to receive payment is established.

(d) Rental income

Rental income from operating leases (net of any incentives given to the lessees) is recognised on a straight-line basis over the lease term.

(e) Sales of investments

Revenue from sales of investments is recognised when the significant risks and rewards of ownership have been transferred to the buyer.

2.20 GOVERNMENT GRANTS

Grants from the government are recognised as a receivable at their fair value when there is reasonable assurance that the grant will be received and the Group will comply with all the attached conditions.

2.21 BORROWING COSTS

Borrowing costs are recognised in profit or loss in the year in which they are incurred using the effective interest method.

2.22 EMPLOYEE BENEFITS

(a) Contributions to provident funds

The Group participates in the national pension schemes as defined by the laws of the countries in which it has operations. Singapore companies make contributions to the Central Provident Fund, a defined contribution pension scheme. Contributions to national pension schemes are recognised as an expense in the same year as the employment that gives rise to the contributions.

2. SIGNIFICANT ACCOUNTING POLICIES – *cont'd*

2.22 EMPLOYEE BENEFITS – *cont'd*

(b) Provision for retirement benefits

Defined benefit plans are post-employment benefit pension plans other than defined contribution plans. Defined benefit plans typically define the amount of benefit that an employee will receive on or after retirement, usually dependent on one or more factors such as age, years of service and compensation.

The liability recognised in the statement of financial position in respect of a defined benefit pension plan is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets, if any, together with adjustments for unrecognised past-service costs. The defined benefit obligation is calculated annually using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using market yields of high quality government bonds that are denominated in the currency in which the benefits will be paid and have tenures approximating to that of the related post-employment benefit obligations.

Actuarial gains and losses are recognised in profit or loss in the year when they arise.

Past service costs are recognised immediately in profit or loss, unless the changes to the pension plan are conditional on the employees remaining in service for a specified period of time (the vesting period). In this case, the past-service costs are amortised on a straight-line basis over the vesting period.

(c) Employee leave entitlements

Employee entitlements to annual leave are recognised when they accrue to employees. An accrual is made for estimated liability for annual leave as a result of services rendered by employees up to the end of the reporting year.

2.23 LEASES

(a) When the Group is the lessee:

The Group leases land and buildings under operating leases from related and non-related parties.

Lessee - Operating leases

Leases of property, plant and equipment where substantially all risks and rewards incidental to ownership are retained by the lessors are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessors) are recognised in profit or loss on a straight-line basis over the period of the lease.

(b) When the Group is the lessor:

The Group leases land and building under operating leases to related and non-related parties.

2. SIGNIFICANT ACCOUNTING POLICIES – *cont'd*

2.23 LEASES – *cont'd*

(b) When the Group is the lessor - *cont'd*

Lessor - Operating leases

Leases of land and buildings where the Group retains substantially all risk and rewards incidental to ownership are classified as operating leases. Rental income from operating leases (net of any incentives given to the lessees) is recognised in profit or loss on a straight-line basis over the lease term.

Initial direct costs incurred by the Group in negotiating and arranging operating leases are added to the carrying amount of the leased assets and recognised as an expense in profit or loss over the lease term on the same basis as the lease income.

2.24 SEGMENT REPORTING

Operating segments are reported in a manner consistent with the internal reporting provided to the chief decision maker who is responsible for allocating resources and assessing performance of the operating segments.

2.25 PREPAID LEASE PAYMENTS

Leasehold land that normally has a definite economic life and where the title is not expected to pass to the lessee by the end of the lease term is treated as an operating lease. Payments made on entering into or acquiring leasehold land are accounted as prepaid lease payments and amortised evenly over the lease terms of the land.

3. PROPERTY, PLANT AND EQUIPMENT

GROUP	Revalued cost: Leasehold land $	Revalued cost: Leasehold building $	Cost: Leasehold land and buildings $	Cost: Motor vehicles $	Cost: Office equipment and fittings $	Total $
Cost						
At 1 August 2015	31,566	82,501	2,025,696	3,259,102	1,470,307	6,869,172
Additions	—	—	—	611,841	222,599	834,440
Disposals	—	—	—	(570,037)	(256,903)	(826,940)
Currency translation difference	(2,500)	(6,532)	(160,384)	(136,356)	(90,313)	(396,085)
At 31 July 2016	29,066	75,969	1,865,312	3,164,550	1,345,690	6,480,587
Transfer to Leasehold land and buildings	(29,066)	(75,969)	105,035	—	—	—
Additions	—	—	—	131,404	41,066	172,470
Disposals	—	—	—	(34,222)	(1,715)	(35,937)
Currency translation difference	—	—	(80,531)	(70,643)	(46,844)	(198,018)
At 31 July 2017	—	—	1,889,816	3,191,089	1,338,197	6,419,102
Accumulated Depreciation						
At 1 August 2015	1,148	55,669	469,093	1,904,105	700,298	3,130,313
Charge for the year	32	1,538	52,700	321,540	127,343	503,153
Disposals	—	—	—	(415,143)	(221,569)	(636,712)
Currency translation difference	(91)	(4,426)	(37,789)	(111,315)	(34,393)	(188,014)
At 31 July 2016	1,089	52,781	484,004	1,699,187	571,679	2,808,740
Transfer to Leasehold land and buildings	(1,089)	(52,781)	53,870	—	—	—
Charge for the year	—	—	52,515	275,456	126,988	454,959
Disposals	—	—	—	(34,222)	(1,715)	(35,937)
Currency translation difference	—	—	(23,086)	(58,868)	(21,432)	(103,386)
At 31 July 2017	—	—	567,303	1,881,553	675,520	3,124,376
Net Carrying Amount						
At 31 July 2016	27,977	23,188	1,381,308	1,465,363	774,011	3,671,847
At 31 July 2017	—	—	1,322,513	1,309,536	662,677	3,294,726

3. PROPERTY, PLANT AND EQUIPMENT – *cont'd*

COMPANY	Motor vehicles $	Office equipment and fittings $	Total $
Cost			
At 1 August 2015	1,095,006	333,161	1,428,167
Additions	–	131,527	131,527
Disposals	(649,901)	(257,721)	(907,622)
At 31 July 2016	445,105	206,967	652,072
Additions	34,069	4,839	38,908
Disposals	(34,222)	–	(34,222)
At 31 July 2017	444,952	211,806	656,758
Accumulated Depreciation			
At 1 August 2015	157,713	277,313	435,026
Charge for the year	102,697	34,240	136,937
Disposals	(78,324)	(222,387)	(300,711)
At 31 July 2016	182,086	89,166	271,252
Charge for the year	44,788	32,869	77,657
Disposals	(34,222)	–	(34,222)
At 31 July 2017	192,652	122,035	314,687
Net Carrying Amount			
At 31 July 2016	263,019	117,801	380,820
At 31 July 2017	252,300	89,771	342,071

Leasehold land and buildings of the Group with a total net carrying amount of $337,660 (2016: $372,466) have been mortgaged to secure banking facilities granted to a subsidiary (Note 18).

The Group's leasehold land and leasehold building stated at revalued cost were based on an independent appraisal by professional valuer, C. H. William, Talhar & Wong (Sabah) Sdn Bhd on 27 February 1982 at $29,066 and $75,969 [equivalent to RM88,000 and RM230,000 respectively] which were the fair value at that date.

Details of properties used for office and warehouse purposes are as follows:

Location	Site area *(sq. m)*	Tenure
TTB 2195, Lot 10, Taman Anson, Tawau, Sabah	410	999 years from 1905
TD 2205, Lot 20, Taman Anson, Tawau, Sabah	377	999 years from 1905

4. PREPAID LEASE

	GROUP	
	2017	2016
	$	$
Cost		
Balance at beginning of the financial year	1,939,913	2,106,712
Currency translation difference	(79,288)	(166,799)
Balance at end of the financial year	1,860,625	1,939,913
Accumulated Amortisation		
Balance at beginning of the financial year	340,847	314,731
Charge for the year	49,458	51,668
Currency translation difference	(14,970)	(25,552)
Balance at end of the financial year	375,335	340,847
Net Carrying Amount	1,485,290	1,599,066

Prepaid lease of the Group with a total net carrying amount of $332,489 (2016: $346,658) have been mortgaged to secure banking facilities granted to a subsidiary (Note 18).

Details of leasehold land used for office and warehouse purposes are as follows:

Location	Site area *(sq. m)*	Tenure
Lot 3, Km 8, Jalan Tuaran, Kota Kinabalu, Sabah	8,025	60 years from 2013
Lot 8, Block C, Saguking Warehouse, Federal Territory of Labuan	280	99 years from 1982
MDLD 1434, Lot 4B, Hopeley Ind Shophouse, Lahad Datu, Sabah	168	59 years from 1974
Lot 118, SEDCO Industrial Estate, Phase II B, Mile 3, North Road, Sandakan, Sabah	464	25 years from 2013
Lot PT 1542, Mukim 1, Daerah Seberang Perai Tengah, Pulau Pinang	7,918	60 years from 1985

5. INVESTMENT PROPERTY

GROUP AND COMPANY	Freehold land $	Construction-in-progress $	Total $
Cost			
At 1 August 2015	3,879,481	337,770	4,217,251
Additions	–	894,071	894,071
At 31 July 2016	3,879,481	1,231,841	5,111,322
Additions	–	4,356,294	4,356,294
At 31 July 2017	3,879,481	5,588,135	9,467,616
Net Carrying Amount			
At 31 July 2016	3,879,481	1,231,841	5,111,322
At 31 July 2017	3,879,481	5,588,135	9,467,616
Fair Value			
At 31 July 2016			12,500,000
At 31 July 2017			24,000,000

The redevelopment of the existing heritage building is expected to be completed by the end of the year.

The following amounts are recognised in profit or loss:

	GROUP AND COMPANY 2017 $	2016 $
Rental income from investment property (Note 24)	–	13,434
Direct operating expenses arising from:		
- Investment property that generated rental income	–	1,157
- Investment property that did not generate rental income	61,219	15,154

The investment property of the Group was leased to tenants under operating leases in the previous years. Tenancy ceased on commencement of redevelopment activities. The Group intends to lease out most of the space after completion.

5. **INVESTMENT PROPERTY** – *cont'd*

The Company's investment property was appraised as at 31 July 2017 by an independent valuer, Edmund Tie & Company (SEA) Pte Ltd, at a fair value of $24,000,000 (Level 3 fair value hierarchy). In the previous year, the company's investment property (land value only) was appraised as at 31 July 2014 by an independent valuer, DTZ Debenham Tie Leung (SEA) Pte Ltd, at a fair value of $12,500,000 (Level 3 fair value hierarchy). The increase in total value of investment property from their last valuation report is mainly due to the inclusion of the building value estimated to be in the region of $10,000,000.

In accordance with the valuation report dated 23 September 2014 and 1 August 2017, the valuation methodology used in determining the fair value of the investment property is the "Market Value Approach". Under this approach, the valuation is based on the highest value at which the sale interest in property might reasonably be expected to have been completed at the date of valuation.

Key Assumptions used in the Valuation Report

The following describes the key assumptions used in deriving at the fair value of the investment property: a) a willing seller; b) prior to the date of valuation, there had been a reasonable period (having regard to the natures of the property and the state of the market) for the proper marketing of the interest, for the agreement of price and terms for the completion of the sale; c) no account is taken of any additional bid by a prospective purchaser with a special interest; and d) both parties to the transaction had acted knowledgeably, prudently and without compulsion.

The management is of the view that there is no material movement in fair value since then.

This property is professionally appraised every five years.

Details of the investment property is as follows:

Location	**Land area** *(sq. m)*	**Tenure**
2 MacTaggart Road, Singapore 368078	1,020	Freehold

6. INVESTMENTS IN SUBSIDIARIES

	COMPANY	
	2017 $	2016 $
Unquoted equity investments, at cost	20,649,874	20,649,874
Less: Impairment losses	(2,362,506)	(2,362,506)
	18,287,368	18,287,368

Details of the subsidiaries are as follows:

Name of subsidiary	Principal activities	Place of incorporation/ business	Percentage of equity held 2017 %	 2016 %
Held by the Company				
Khong Guan Food Products Pte. Ltd.^	Trading in quoted investments	Singapore	100.00	100.00
Victus Marketing Pte. Ltd.^	Trading in quoted investments	Singapore	100.00	100.00
Tau Meng Investments Pte. Ltd. ^	Investment holding	Singapore	100.00	100.00
Swee Hin Chan Company Sdn. Berhad #	Wholesaler of wheat flour, general goods and related products	Malaysia	89.82	89.82
Tong Guan Food Products Sdn. Bhd.@	Wholesaler of wheat flour, biscuits and other consumer goods	Malaysia	84.31	84.31
Held by Tong Guan Food Products Sdn. Bhd.				
Sasinco Sdn. Bhd.@	The company is currently under members' voluntary winding up*	Malaysia	–	100.00

^ Audited by RT LLP

Audited by Ernst & Young, Malaysia

@ Audited by Deloitte PLT (formerly known as Deloitte KassimChan, Malaysia)

* The subsidiary company was in the process of voluntary winding up during the financial year and the liquidation was effected on 28 July 2017.

In accordance with Rule 716 of The Singapore Exchange Securities Trading Limited, the audit committee and board of directors of the Company confirm that they are satisfied that the appointment of different auditors for its subsidiaries and significant associates (Note 7) would not compromise the standard and effectiveness of the audit of the Company.

6. INVESTMENTS IN SUBSIDIARIES – *cont'd*

Carrying value of non-controlling interests

	2017 $	2016 $
Swee Hin Chan Company Sdn Berhad	726,927	741,129
Tong Guan Food Products Sdn. Bhd.	1,634,529	1,598,269
	2,361,456	2,339,398

Summarised financial of subsidiaries with material non-controlling interests

Set out below are the summarised financial information for each subsidiary that has non-controlling interests to the Group. These are presented before their inter-company eliminations.

There were no transactions with non-controlling interests for the financial year ended 31 July 2017 and 31 July 2016.

Summarised statement of financial position

As at 31 July 2017	Swee Hin Chan Company Sdn. Berhad $	Tong Guan Food Products Sdn. Bhd. $
Current		
Assets	5,814,649	12,823,220
Liabilities	(1,122,648)	(3,526,593)
Total current net assets	4,692,001	9,296,627
Non-current		
Assets	2,475,394	1,186,537
Liabilities	(23,434)	(64,916)
Total non-current assets	2,451,960	1,121,621
Net assets	7,143,961	10,418,248

Summarised statement of comprehensive income

For the year ended 31 July 2017		
Revenue	19,161,043	32,697,240
Profit before tax	496,664	1,350,156
Income tax expense	(140,998)	(361,127)
Post-tax profit from continuing operation	355,666	989,029
Post-tax profit from discontinued operation	–	–
Other comprehensive income	(301,086)	(430,267)
Total comprehensive income	54,580	558,762

6. INVESTMENTS IN SUBSIDIARIES – *cont'd*

Summarised statement of comprehensive income – cont'd

For the year ended 31 July 2017	Swee Hin Chan Company Sdn. Berhad $	Tong Guan Food Products Sdn. Bhd. $
Total comprehensive income allocated to non-controlling interests	5,554	87,665
Dividend paid to non-controlling interests	19,756	51,405

Summarised statement of financial position

As at 31 July 2016		
Current		
Assets	6,372,151	12,649,204
Liabilities	(1,726,444)	(3,903,139)
Total current net assets	4,645,707	8,746,065
Non-current		
Assets	2,660,099	1,511,692
Liabilities	(22,265)	(70,627)
Total non-current assets	2,637,834	1,441,065
Net assets	7,283,541	10,187,130

Summarised statement of comprehensive income

For the year ended 31 July 2016		
Revenue	22,802,250	35,017,611
Profit before tax	989,755	1,321,463
Income tax expense	(270,708)	(329,406)
Post-tax profit from continuing operation	719,047	992,057
Post-tax profit from discontinued operation	–	–
Other comprehensive income	(588,586)	(828,425)
Total comprehensive income	130,461	163,632
Total comprehensive income allocated to non-controlling interests	59,892	129,972
Dividend paid to non-controlling interests	20,415	53,120

6. **INVESTMENTS IN SUBSIDIARIES** – *cont'd*

Summarised cash flows

For the year ended 31 July 2017	Swee Hin Chan Company Sdn. Berhad $	Tong Guan Food Products Sdn. Bhd. $
Cash flows from operating activities		
Cash generated from operations	513,486	862,775
Interest income	513	–
Interest paid	–	(284)
Income tax paid	(138,875)	(363,816)
Net cash generated from operating activities	375,124	498,675
Net cash (used in)/generated from investing activities	(102,066)	83,171
Net cash used in financing activities	(194,160)	(327,644)
Net increase in cash and cash equivalents	78,898	254,202
Cash and cash equivalents at beginning of the year	809,087	505,018
Exchange losses on cash and cash equivalents	(34,727)	(25,983)
Cash and cash equivalents at end of the year	853,258	733,237

7. INVESTMENTS IN ASSOCIATES

	GROUP 2017 $	GROUP 2016 $
Unquoted equity investments, at cost	12,035,540	12,328,454
Share of post-acquisition reserves	12,351,605	10,999,115
Share of capital reserve	190,074	140,485
Foreign currency translation reserves	(6,255,353)	(5,599,402)
	18,321,866	17,868,652
Movements for share of post-acquisition reserves		
Balance at beginning of the financial year	10,999,115	9,927,141
Share of results	1,839,338	1,596,416
Dividends received	(536,424)	(524,442)
Disposal	49,576	—
Balance at end of the financial year	12,351,605	10,999,115

Summarised statement of financial position

As at 31 July 2017	United Malayan Flour (1996) Sdn Bhd (*) $	Borneo Can Sendirian Berhad $	Total $
Current assets	49,240,524	—	49,240,524
Includes:			
- Cash and cash equivalents	18,247,081	—	18,247,081
Current liabilities	(4,258,907)	—	(4,258,907)
Includes:			
- Financial liabilities (excluding trade payables)	(2,565,533)	—	(2,565,533)
Non-current assets	27,949,896	—	27,949,896
Non-current liabilities	(2,090,399)	—	(2,090,399)
Includes:			
- Financial liabilities	—	—	—
- Other liabilities	(662,596)	—	(662,596)
Net assets	70,841,114	—	70,841,114

* The entity is a group of companies that consist of Federal Oats Mills Sdn Bhd, Leong Hong Oil Mill Sdn Bhd, United Commercial Trading (M) Sdn Bhd.

7. INVESTMENTS IN ASSOCIATES – *cont'd*

Summarised statement of comprehensive income

For the year ended 31 July 2017	United Malayan Flour (1996) Sdn Bhd $	Borneo Can Sendirian Berhad $	Total $
Revenue	80,479,689	29,577	80,509,266
Interest income	551,905	—	551,905
Expenses			
Includes:			
- Depreciation and amortisation	(1,794,379)	—	(1,794,379)
- Interest expense	—	—	—
Profit/(loss) before tax	9,444,674	(1,673)	9,443,001
Income tax expense	(2,046,185)	(14,087)	(2,060,272)
Post-tax profit			
- continuing	7,398,489	—	7,398,489
Post-tax loss			
- discontinued	—	(15,760)	(15,760)
Other comprehensive income	179,159	—	179,159
Total comprehensive income	7,577,648	(15,760)	7,561,888
Dividend received from associated company	536,424	—	536,424

Summarised statement of financial position

As at 31 July 2016			
Current assets	50,823,181	581,701	51,404,882
Includes:			
- Cash and cash equivalents	21,574,947	553,100	22,128,047
Current liabilities	(4,052,297)	—	(4,052,297)
Includes:			
- Financial liabilities (excluding trade payables)	(2,432,705)	—	(2,432,705)
Non-current assets	23,080,472	—	23,080,472
Non-current liabilities	(1,818,254)	—	(1,818,254)
Includes:			
- Financial liabilities	—	—	—
- Other liabilities	(591,013)	—	(591,013)
Net assets	68,033,102	581,701	68,614,803

7. INVESTMENTS IN ASSOCIATES – *cont'd*

Summarised statement of comprehensive income

For the year ended 31 July 2016	United Malayan Flour (1996) Sdn Bhd $	Borneo Can Sendirian Berhad $	Total $
Revenue	83,073,983	219,854	83,293,837
Interest income	484,650	—	484,650
Expenses			
Includes:			
- Depreciation and amortisation	(1,917,733)	(6,746)	(1,924,479)
- Interest expense	—	—	—
Profit/(loss) before tax	8,643,847	(119,740)	8,524,107
Income tax (expense)/refund	(2,070,785)	29,179	(2,041,606)
Post-tax profit/(loss)			
- continuing	6,573,062	(90,561)	6,482,501
Post-tax profit/(loss)			
- discontinued	—	—	—
Other comprehensive income	108,339	—	108,339
Total comprehensive income	6,681,401	(90,561)	6,590,840
Dividend received from associated company	524,442	—	524,442

7. INVESTMENTS IN ASSOCIATES – *cont'd*

Reconciliation of Summarised Financial Information

GROUP	United Malayan Flour (1996) Sdn Bhd 2017 $	2016 $	Total 2017 $	2016 $
Net assets				
At begining of the financial year	68,033,101	68,813,824	68,033,101	68,813,824
Profit for the financial year	7,398,489	6,573,062	7,398,489	6,573,062
Dividend paid				
- company	(1,747,440)	(1,805,760)	(1,747,440)	(1,805,760)
- subsidiary company	(121,593)	(150,104)	(121,593)	(150,104)
Other comprehensive income	179,159	108,339	179,159	108,339
Foreign exchange differences	(2,900,602)	(5,506,259)	(2,900,602)	(5,506,259)
At end of the financial year	70,841,114	68,033,102	70,841,114	68,033,102
Associates' non-controlling interest	(9,768,226)	(9,015,906)	(9,768,226)	(9,015,906)
Nets assets attributable to the Group	61,072,888	59,017,196	61,072,888	59,017,196
Interest in associated companies	18,321,866	17,705,159	18,321,866	17,705,159
Add:				
Carrying value of individually immaterial associated companies			–	163,493
Carrying value of Group's interest in associated companies			18,321,866	17,868,652

Details of the associates are as follows:

Name of company	Principal activities	Place of incorporation/ business	Effective interest held by group 2017 %	2016 %
Held by Tau Meng Investments Pte. Ltd.				
United Malayan Flour (1996) Sdn. Bhd. +	Milling and trading of wheat flour and related products	Malaysia	30.00	30.00
Held by Tong Guan Food Products Sdn. Bhd.				
Borneo Can Sendirian Berhad @	The company is currently under members' voluntary winding up*	Malaysia	–	23.67

+ Audited by Ernst & Young, Malaysia

@ Audited by Deloitte PLT (formerly known as Deloitte KassimChan, Malaysia)

* The associated company was in the process of voluntary winding up during the financial year and the liquidation was effected on 22 December 2016.

8. LONG-TERM INVESTMENTS

Long-term investments are classified as available-for-sale financial assets as follows:

	GROUP		COMPANY	
	2017	2016	2017	2016
	$	$	$	$
Available-for-sale financial assets				
Unquoted equity investments:				
At cost	28,829	1,275,561	–	1,245,504
Less: Impairment loss				
Balance at beginning of the financial year	(346,494)	(349,573)	(339,888)	(339,888)
Disposal	339,888	2,312	339,888	–
Currency translation difference	270	767	–	–
Balance at end of the financial year	(6,336)	(346,494)	–	(339,888)
	22,493	929,067	–	905,616
Total equity investments	22,493	929,067	–	905,616

Available-for-sale financial assets comprise the following:

	GROUP			
	2017		2016	
	At fair value	At cost	At fair value	At cost
	$	$	$	$
Unquoted equity investments:				
- Malaysia	–	22,493	–	23,451
- Hong Kong	–	–	–	905,616
	–	22,493	–	929,067

	COMPANY			
	2017		2016	
	At fair value	At cost	At fair value	At cost
	$	$	$	$
Unquoted equity investments:				
- Hong Kong	–	–	–	905,616

The available-for-sale unquoted equity investment is carried at its cost because fair value cannot be reliably measured. This investment is not quoted on any market. In addition, the variability in the range of reasonable fair value estimates derived from valuation techniques is significant. Consequently, it is carried at cost less provision for impairment.

During the financial year, the Company entered into a Sale and Purchase Agreement with Khong Guan Group Pte Ltd for the sale of 1,560,000 ordinary shares in Far East Biscuit Factory (Hong Kong) Limited ("FEB"), representing 10% of the issued share capital. Based on the Company's carrying value in FEB as at 31 January 2017 of $905,616, the sale resulted in a loss of $184,816. The loss of $184,816 is included within the line item "other expenses" on the face of the statement of comprehensive income.

9. INVENTORIES

	GROUP	
	2017	2016
Trading inventories	$	$
Trading inventories - at cost	5,894,707	6,244,900
Goods-in-transit - at cost	977,629	244,074
	6,872,336	6,488,974

The cost of inventories recognised as an expense as included in the consolidated statement of comprehensive income amounted to $49,095,423 (2016: $51,090,368).

10. SHORT-TERM INVESTMENTS

Short-term investments are classified as financial assets at fair value through profit or loss as follows:

	GROUP	
	2017	2016
	$	$
Held for trading		
Equity investments quoted in:		
- Singapore	3,484,499	5,029,936
- Malaysia	2,350,345	2,233,690
- Hong Kong	1,474	1,814
	5,836,318	7,265,440

Financial assets at fair value through profit or loss are denominated in the following currencies:

	GROUP	
	2017	2016
	$	$
Singapore Dollar	3,445,192	4,991,124
Ringgit Malaysia	2,350,345	2,233,690
United States Dollar	39,307	38,812
Hong Kong Dollar	1,474	1,814
	5,836,318	7,265,440

11. TRADE RECEIVABLES

	GROUP		COMPANY	
	2017	2016	2017	2016
	$	$	$	$
Third parties	10,511,674	11,434,824	480,303	485,891
Related parties	45,286	26,010	–	–
	10,556,960	11,460,834	480,303	485,891
Less: Allowance for doubtful trade receivables				
Balance at beginning of the financial year	(11,506)	(52,932)	–	(24,487)
Allowance made for the year	(440,732)	(8,453)	–	–
Bad debts written off	–	47,808	–	24,487
Currency translation difference	9,731	2,071	–	–
Balance at end of the financial year	(442,507)	(11,506)	–	–
	10,114,453	11,449,328	480,303	485,891

Trade receivables are denominated in the following currencies:

	GROUP		COMPANY	
	2017	2016	2017	2016
	$	$	$	$
Singapore Dollar	593,052	485,891	480,303	485,891
Ringgit Malaysia	9,521,401	10,963,437	–	–
	10,114,453	11,449,328	480,303	485,891

Trade receivables are non-interest bearing and are generally on 30 to 90 days (2016: 30 to 90 days) term. Trade receivables are not secured by any collateral.

The Group's and Company's trade receivables at the end of the reporting period are analysed as follows:

	GROUP		COMPANY	
	2017	2016	2017	2016
	$	$	$	$
Not past due and not impaired (a)	8,055,332	8,779,780	225,588	127,003
Past due but not impaired (b)	2,059,121	2,669,548	254,715	358,888
	10,114,453	11,449,328	480,303	485,891
Impaired receivables (c)				
Individually assessed	442,507	11,506	–	–
Allowance for doubtful receivables	(442,507)	(11,506)	–	–
	–	–	–	–
	10,114,453	11,449,328	480,303	485,891

11. **TRADE RECEIVABLES** – *cont'd*

(a) Not past due and not impaired

Trade receivables that are neither past due nor impaired are substantially companies with a good collection track record with the Group.

(b) Ageing of receivables which are past due but not impaired:

	GROUP		COMPANY	
	2017	2016	2017	2016
	$	$	$	$
Less than 30 days	792,667	1,489,129	82,567	177,060
31 to 60 days	368,604	560,573	116,616	88,556
61 to 90 days	771,436	550,347	52,604	93,272
More than 90 days	126,414	69,499	2,928	–
	2,059,121	2,669,548	254,715	358,888

The Group has not recognised an allowance for doubtful receivables for these amounts, as there has not been a significant change in credit quality and the amounts are still considered recoverable. The Group does not hold any collateral over these balances.

(c) Impaired receivables

Impaired receivables, individually determined at the end of the reporting period, relate to debtors who are in significant financial difficulties and have defaulted in payments. These receivables are not secured by any collateral.

12. **OTHER RECEIVABLES**

	GROUP		COMPANY	
	2017	2016	2017	2016
	$	$	$	$
Sundry receivables	352,637	180,769	131,500	122,500
Interest receivable	5,795	6,699	5,795	6,699
Deposits	117,540	76,563	44,688	25,561
Prepayments	94,172	71,202	46,294	45,269
	570,144	335,233	228,277	200,029

Other receivables are denominated in the following currencies:

	GROUP		COMPANY	
	2017	2016	2017	2016
	$	$	$	$
Singapore Dollar	230,369	214,854	223,054	194,399
Ringgit Malaysia	339,775	120,379	5,223	5,630
	570,144	335,233	228,277	200,029

13. AMOUNTS OWING BY SUBSIDIARIES

	COMPANY	
	2017	2016
	$	$
Amounts owing by subsidiaries, non-trade	5,719,299	5,719,299
Less: Allowance for doubtful receivable		
Balance at beginning of the financial year	(442,000)	(327,000)
Allowance written back/(made) for the year	138,000	(115,000)
Balance at end of the financial year	(304,000)	(442,000)
	5,415,299	5,277,299

The amounts owing by subsidiaries are unsecured, repayable on demand and interest-free.

Amounts owing by subsidiaries are denominated in the following currencies:

	COMPANY	
	2017	2016
	$	$
Singapore Dollar	5,415,299	5,277,299

14. FIXED DEPOSITS

Fixed deposits of the Group and Company are placed with licensed financial institutions and mature within one month (2016: one month) from the end of the reporting period. The effective interest rate is 0.20% to 3.15% (2016: 0.25% to 3.37%) per annum.

Fixed deposits are denominated in the following currencies:

	GROUP		COMPANY	
	2017	2016	2017	2016
	$	$	$	$
Singapore Dollar	5,500,000	10,500,000	5,500,000	10,500,000
Ringgit Malaysia	3,852,045	3,892,358	3,782,195	3,821,655
	9,352,045	14,392,358	9,282,195	14,321,655

15. CASH AND BANK BALANCES

Cash and bank balances are denominated in the following currencies:

	GROUP		COMPANY	
	2017	2016	2017	2016
	$	$	$	$
Singapore Dollar	3,761,132	1,757,386	888,722	819,362
Ringgit Malaysia	1,607,307	1,338,342	5,736	5,996
Hong Kong Dollar	1,709	1,760	–	–
	5,370,148	3,097,488	894,458	825,358

16. TRADE PAYABLES

	GROUP		COMPANY	
	2017	2016	2017	2016
	$	$	$	$
Third parties	3,054,738	3,396,517	–	–
Related parties (Note 30)	1,479,154	2,116,611	268,687	204,855
	4,533,892	5,513,128	268,687	204,855

Trade payables are denominated in the following currencies:

	GROUP		COMPANY	
	2017	2016	2017	2016
	$	$	$	$
Singapore Dollar	268,687	204,855	268,687	204,855
United States Dollar	528,067	135,550	–	–
Ringgit Malaysia	3,737,138	5,172,723	–	–
	4,533,892	5,513,128	268,687	204,855

Trade payables are non interest-bearing and are normally settled within 30 to 90 days (2016: 30 to 90 days).

Included in trade payables, is an aggregate amount of $744,280 [equivalent to RM2,349,368] (2016: $943,563 [equivalent to RM2,856,684]) which is secured by corporate guarantees provided by the Company to certain suppliers of a subsidiary [Note 33 (b)].

17. OTHER PAYABLES

	GROUP		COMPANY	
	2017	2016	2017	2016
	$	$	$	$
Sundry payables	841,492	326,816	632,902	225,651
Accrued expenses	583,733	561,790	348,792	284,538
	1,425,225	888,606	981,694	510,189

Non-trade payables are non-interest bearing and are normally settled within 90 (2016: 90) days or on demand.

The payables are denominated in the following currencies:

	GROUP		COMPANY	
	2017	2016	2017	2016
	$	$	$	$
Singapore Dollar	1,041,189	567,296	981,694	510,189
Ringgit Malaysia	384,036	321,310	—	—
	1,425,225	888,606	981,694	510,189

18. BANK FACILITIES

The subsidiaries has unused banking facilities which were secured by:

(a) mortgages over leasehold land and buildings with a total net carrying amount of $337,660 (2016: $372,466) (Note 3) of the Group;

(b) mortgages over prepaid lease payments with a total net carrying amount of $332,489 (2016: $346,658) (Note 4) of the Group;

(c) corporate guarantees from the Company [see Note 33(a)]; and

(d) a negative pledge by a subsidiary.

19. PROVISION FOR RETIREMENT BENEFITS

	GROUP AND COMPANY	
	2017	2016
	$	$
Balance at beginning of the financial year	307,223	312,556
Payment made	(90,117)	(31,433)
Provision made	20,432	26,100
Balance at end of the financial year	237,538	307,223

The Company has a defined benefits plan for qualifying employees of the Company. Under the plan, the employees are entitled to receive a benefit of 10/26 of their final salary for each year of service up to the retirement age of 62 years.

	GROUP AND COMPANY	
	2017	2016
	$	$
Obligations recognised in the statement of financial position for:		
Pension benefits	237,538	307,223
Expenses charged to profit or loss:		
Pension benefits	20,432	26,100

	GROUP AND COMPANY	
	2017	2016
	$	$
The amount recognised in the statement of financial position is determined as follows:		
Present value of unfunded obligations and liability recognised in the statement of financial position	237,538	307,223

	GROUP AND COMPANY	
	2017	2016
	$	$
The amounts recognised in profit or loss are as follows:		
Current service cost	17,664	23,154
Interest cost	204	253
Remeasurement - loss from change in financial assumptions	2,564	2,693
	20,432	26,100

19. PROVISION FOR RETIREMENT BENEFITS – *cont'd*

Movements in the defined benefit obligation are as follows:

	GROUP AND COMPANY	
	2017	2016
	$	$
Balance at beginning of the financial year	307,223	312,556
Current service cost	17,664	23,154
Interest cost	204	253
Actuarial loss	2,564	2,693
Benefits paid	(90,117)	(31,433)
Balance at end of the financial year	237,538	307,223

The significant actuarial assumptions used were as follows:

	GROUP AND COMPANY	
	2017	2016
Discount rate	1.0%	1.0%
Salary increment rate	6.0%	6.0%

The sensitivity of the defined benefit obligation to changes in the weighted principal assumptions is:

	GROUP AND COMPANY Impact on defined benefit obligation		
	Change in assumption	Increase in assumption	Decrease in assumption
Discount rate	0.5%	Decrease by 5.9%	Increase by 6.4%
Salary increment rate	2.0%	Increase by 1.7%	Decrease by 1.7%

The methods and types of assumptions used in preparing the sensitivity analysis did not change compared to the previous period.

20. DEFERRED TAX LIABILITIES

Recognised deferred tax assets and liabilities, determined after appropriate offsetting, are attributable to the following:

	GROUP	
	2017	2016
	$	$
Deferred tax liabilities		
Fair value gains on short-term investments	399,569	421,694
Excess of carrying amount over tax written down value of property, plant and equipment and others	88,350	92,892
	487,919	514,586

20. DEFERRED TAX LIABILITIES – *cont'd*

Deferred tax assets and liabilities are netted off when related to the same tax authority.

Movements in deferred tax assets and liabilities of the Group are analysed as follows:

	GROUP	
	2017	2016
	$	$
Deferred tax liabilities		
Balance at beginning of the financial year	514,586	577,110
(Credited)/charged to profit or loss		
- current	(25,252)	(68,762)
- prior years	2,366	13,440
Currency translation difference	(3,781)	(7,202)
Balance at end of the financial year	487,919	514,586
Net deferred taxation credited to profit or loss (Note 26)	(22,886)	(55,322)

21. SHARE CAPITAL

	GROUP AND COMPANY	
	2017	2016
	$	$
Issued and fully paid:		
25,812,520 (2016: 25,812,520) ordinary shares	33,278,673	33,278,673

The holders of ordinary shares are entitled to receive dividends as and when declared by the Company. All ordinary shares carry one vote per share without restrictions. The ordinary shares have no par value.

22. CAPITAL RESERVES

	GROUP	
	2017	2016
	$	$
NON-DISTRIBUTABLE		
Balance at beginning of the financial year	140,790	104,446
Share of associates' capital reserve	49,589	36,344
Balance at end of the financial year	190,379	140,790

Capital reserve records the share of the associate's capital reserve which represents fair value reserve.

23. REVENUE

	GROUP	
	2017	2016
	$	$
Sale of goods to:		
third parties	52,948,091	57,162,271
related parties	181,109	100,564
Sale of short-term investments	3,788,985	1,239,305
Gross dividends from:		
quoted equity investments	186,864	200,046
unquoted equity investments	5,970	6,170
	57,111,019	58,708,356

24. OTHER INCOME

	GROUP	
	2017	2016
	$	$
Reversal of allowance for doubtful trade receivables	606	2,570
Gain on disposal of property, plant and equipment	2,093	31,768
Gain on disposal of long-term unquoted investment	–	4,287
Transport charges received	360	7,652
Government grants	21,850	51,332
Interest income	134,161	158,900
Management fee received from a related party	12,000	12,000
Commission received	78,842	–
Rental from investment property received from		
- associates	–	13,179
- third parties	–	255
Sundry income	13,784	7,446
	263,696	289,389

25. PROFIT BEFORE TAX

This is stated after charging/(crediting) the following items which have not been otherwise disclosed elsewhere in the financial statements:

	GROUP	
	2017 $	2016 $
The aggregate amount of:		
- audit fees paid to the Company auditors	49,021	49,021
- non-audit fees paid to the Company auditors	1,200	1,200
- audit fees paid to subsidiaries auditors	15,565	16,887
- non-audit fees paid to subsidiaries auditors	6,181	6,972
Allowance for doubtful trade receivables	441,338	11,023
Contributions to provident funds		
- directors	50,875	49,307
- employees	281,583	279,640
Directors' remuneration		
- directors of the Company	1,012,152	972,073
- directors of subsidiaries	96,504	98,511
Foreign exchange loss, net	133,418	283,935
Bank interest expenses	284	4,860
Operating lease expense	132,414	125,991
Provision for retirement benefits	20,432	26,100
Fair value (gain)/loss on short-term investment	(286,501)	811,997
Bad debts written off	—	8,790

Key management personnel comprise directors of the Group and their remuneration is disclosed in the above note.

26. INCOME TAX EXPENSE

	GROUP	
	2017 $	2016 $
Current taxation:		
Malaysian tax	499,831	602,413
Tax deducted at source	1,967	2,056
	501,798	604,469
Prior year's under/(over) provision	3,032	(13,107)
	504,830	591,362
Deferred taxation:		
Current	(25,252)	(68,762)
Prior year's underprovision	2,366	13,440
	(22,886)	(55,322)
	481,944	536,040

A numerical reconciliation between the accounting profit and tax expense is as follows:

	2017 $	2016 $
Profit before tax	1,969,679	823,271
Tax at the applicable rate of 17% (2016: 17%)	334,845	139,956
Tax effects of:		
Expenses not deductible for tax purposes	144,979	172,119
Income not subject to tax	(50,905)	(79,190)
Share of results of associates	(312,688)	(271,390)
Difference in tax rate of other countries	129,597	159,829
Deferred tax benefits not recognised	323,375	412,361
Utilisation of unabsorbed losses	(94,590)	–
	474,613	533,685
Withholding tax	1,933	2,022
Prior year's underprovision	5,398	333
Tax expense	481,944	536,040

At the end of the reporting period, the Group has estimated unabsorbed tax losses totaling $30,311,000 (2016: $28,967,000) available for offsetting against future taxable profit earned by respective members of the Group incorporated in Singapore subject to the agreement of the Singapore tax authority.

Deferred tax benefits arising from such unabsorbed tax losses amounting to approximately $5,153,000 (2016: $4,924,000) for the Group have not been recognised as it is not currently probable that sufficient future taxable profits will be available against which they can be utilised.

27. EARNINGS PER SHARE

Basic and diluted earnings per share amounts are calculated by dividing the profit attributable to ordinary equity holders of the Company by the weighted average number of ordinary shares outstanding during the financial year.

The following reflects the income and share data used in the basic and diluted earnings per share computations for the financial year:

	GROUP	
	2017	**2016**
Net profit attributable to ordinary equity holders on issue applicable to basic and diluted earnings per share ($)	1,296,375	58,421
Weighted average number of ordinary shares on issue applicable to basic and diluted earnings per share	25,812,520	25,812,520
Basic and diluted (in cents)	5.02	0.23

Diluted earnings per share is the same as the basic earnings per share as there are no dilutive ordinary shares.

28. DIVIDENDS

The final tax exempt one-tier dividend of $0.03 (2016: one-tier dividend of $0.03) per ordinary share amounting to $774,376 (2016: $774,376) declared for the financial year ended 31 July 2016 (2016: declared for the financial year ended 31 July 2015) was approved and paid during the financial year ended 31 July 2017 (2016: approved and paid during the financial year ended 31 July 2016).

The directors propose a final tax exempt one-tier dividend of $0.03 per ordinary share amounting to $774,376 in respect of the financial year ended 31 July 2017. This dividend has not been recognised as a liability at the end of the financial year as this is subject to approval at the Annual General Meeting of the Company.

29. CASH AND CASH EQUIVALENTS

Cash and cash equivalents included in the consolidated statement of cash flows comprise the following items:

	GROUP	
	2017	**2016**
	$	**$**
Fixed deposits (Note 14)	9,352,045	14,392,358
Cash and bank balances (Note 15)	5,370,148	3,097,488
	14,722,193	17,489,846

30. SIGNIFICANT RELATED PARTY TRANSACTIONS

For the purposes of these financial statements, parties are considered to be related to the Group if the Group has the ability, directly or indirectly, to control the party or exercise significant influence over the party in making financial and operating decisions, or vice versa, or where the Group and the party is subject to common control, or the party is a member of key management personnel of the Group, or the party is a close family member of any individual of the key management personnel or controlling party.

Related parties include key management personnel such as directors who have the authority and responsibility for planning, directing and controlling the activities of the Group. Directors' remuneration is disclosed in Notes 25 and 31 to the financial statements.

In addition to information disclosed elsewhere in the financial statements, transactions with related parties at terms agreed between the parties were as follows:

	GROUP		COMPANY	
	2017	2016	2017	2016
	$	$	$	$
Purchases from				
- associate	10,268,507	10,446,331	1,098,841	1,249,798
- related parties	8,172,870	8,422,830	3,360	5,175
Rental income received from an associate	–	13,179	–	13,179
Management fees received from subsidiaries	–	–	38,661	40,443
Amount due from subsidiaries	–	–	–	419,299
Rental paid to a related party	80,804	67,337	80,804	67,337

31. DIRECTORS' REMUNERATION

The number of directors of the Company whose remuneration falls within the following remuneration bands is:

	GROUP	
	2017 Number of directors	2016 Number of directors
Below $100,000	3	3
$100,001 to $250,000	1	1
$250,001 to $500,000	2	2

32. SEGMENT INFORMATION

For management purposes, the Group is organised into strategic business units based on their products and geography. The Group has three reportable operating segments as follows:

(a) Trading of wheat flour and consumer goods – trading of wheat flour and consumer goods in Singapore and Malaysia;

(b) Investment trading – trading of shares listed in mainly Singapore and Malaysia; and

(c) Investment holding – holding of shares in Singapore and Malaysia for dividend income.

32. SEGMENT INFORMATION – *cont'd*

Management monitors the results of each of the above operating segments for the purpose of making decisions about resource allocation and performance assessment. Performance is measured based on segment earnings before interest, taxation, depreciation and amortisation ("EBITDA"). EBITDA is used to measure performance as management believes that such information is the most relevant in evaluating the results of certain segments relative to other entities that operate within these industries. Group financing (including finance costs) and income taxes are managed on a Group basis and are not allocated to operating segments. Segment assets and liabilities are presented net of inter-segment balances. Inter-segment pricing is determined on arm's length basis.

Geographically, management reviews the performance of the businesses in Singapore, Malaysia and China. In presenting information on the basis of geographical segments, segment revenue is based on the geographical location of customers. Non-current assets and total assets are based on the geographical location of the assets.

Information regarding the Group's reportable segments is presented below.

BUSINESS SEGMENTS

2017	Trading of wheat flour and consumer goods $	Investment trading $	Investment holding $	Group $
Revenue				
External revenue	53,135,170	3,788,985	186,864	57,111,019
Results				
Profit/(loss) before interest, taxation, depreciation and amortisation	(75,451)	401,507	174,825	500,881
Depreciation and amortisation	(444,267)	(60,150)	–	(504,417)
Operating (loss)/profit	(519,718)	341,357	174,825	(3,536)
Interest expense				(284)
Interest income				134,161
Share of results of associates, net of tax				1,839,338
Taxation				(481,944)
Profit after tax				1,487,735
Assets and Liabilities				
Segment assets	42,655,655	9,298,245	73,237	52,027,137
Associates				18,321,866
Unallocated assets				691,171
				71,040,174
Segments liabilities	5,295,668	51,344	8,151	5,355,163
Unallocated liabilities				1,329,411
				6,684,574

32. SEGMENT INFORMATION – *cont'd*

BUSINESS SEGMENTS – *cont'd*

2017	Trading of wheat flour and consumer goods $	Investment trading $	Investment holding $	Group $
Other segments information				
Expenditure for non-current assets	4,528,764	–	–	4,528,764
Other non-cash items:				
Allowance for doubtful trade receivables	440,732	–	–	440,732
Foreign exchange loss	129,450	3,567	401	133,418
2016				
Revenue				
External revenue	57,262,835	1,239,305	206,216	58,708,356
Results				
(Loss)/Profit before interest, taxation, depreciation and amortisation	452,505	(1,010,106)	185,237	(372,364)
Depreciation and amortisation	(499,913)	(54,908)	–	(554,821)
Operating (loss)/profit	(47,408)	(1,065,014)	185,237	(927,185)
Interest expense				(4,860)
Interest income				158,900
Share of results of associates, net of tax				1,596,416
Taxation				(536,040)
Profit after tax				287,231

32. **SEGMENT INFORMATION** – *cont'd*

BUSINESS SEGMENTS – *cont'd*

2016	Trading of wheat flour and consumer goods $	Investment trading $	Investment holding $	Group $
Assets and Liabilities				
Segment assets	44,415,253	8,766,654	970,748	54,152,655
Associates				17,868,652
Unallocated assets				337,624
				72,358,931
Segments liabilities	6,325,034	50,036	7,071	6,382,141
Unallocated liabilities				841,402
				7,223,543
Other segments information				
Expenditure for non-current assets	1,288,711	439,800	–	1,728,511
Other non-cash items:				
Allowance for doubtful trade receivables	8,453	–	–	8,453
Bad debts written off	8,790	–	–	8,790
Foreign exchange loss	274,628	8,400	907	283,935

GEOGRAPHICAL SEGMENTS

2017	Singapore $	Malaysia $	The People's Republic of China $	Group $
Revenue				
External revenue	5,252,736	51,858,283	–	57,111,019
Assets				
Segment assets	30,271,559	21,755,578	–	52,027,137
Associates	–	18,321,866	–	18,321,866
Unallocated assets				691,171
				71,040,174
2016				
Revenue				
External revenue	2,888,495	55,819,861	–	58,708,356
Assets				
Segment assets	30,415,745	22,831,294	905,616	54,152,655
Associates	–	17,868,652	–	17,868,652
Unallocated assets				337,624
				72,358,931

There is no revenue from transactions with a single external customer amounting to 10% or more of the Group's revenue.

33. CONTINGENT LIABILITIES - unsecured

a) The Company has issued corporate guarantees amounting to $1,823,184 [equivalent to RM5,755,000] (2016: $1,900,877 [equivalent to RM5,755,000]) to certain banks for facilities granted to two subsidiaries. The aggregate amount of facilities utilised as at 31 July 2017 and 31 July 2016 was $NIL.

b) The Company has issued corporate guarantees amounting to $2,217,600 [equivalent to RM7,000,000] (2016: $2,312,100 [equivalent to RM7,000,000]) to certain suppliers of one subsidiary for credit purchases made from the suppliers.

c) The directors are of the view that the fair values of corporate guarantees provided by the Company are not material.

34. COMMITMENTS

(a) Operating lease commitments where the Group is a lessee

The Group leases premises under non-cancellable operating lease agreements. The leases have varying terms, escalation clauses and renewal rights.

The future minimum lease payables under non-cancellable operating leases contracted for at the end of the reporting period but not recognised as liabilities, are as follows:

	GROUP		COMPANY	
	2017	2016	2017	2016
	$	$	$	$
Not later than one year	111,738	123,450	53,870	80,804
Between one and five years	37,222	83,789	–	13,468
	148,960	207,239	53,870	94,272

(b) Capital commitments

Capital expenditure contracted for and outstanding at the end of the reporting period but not recognised in the financial statements:

	GROUP		COMPANY	
	2017	2016	2017	2016
	$	$	$	$
Property, plant and equipment	171,981	98,858	93,100	–
Investment property	4,436,336	8,774,846	4,436,336	8,774,846

35. **FINANCIAL RISK MANAGEMENT**

Financial risk management is integral to the whole business of the Group. The Group has a system of controls in place to create an acceptable balance between the cost of risks occurring and the cost of managing the risks. The management continually monitors the Group's financial risk management process to ensure that an appropriate balance between risk and control is achieved. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities.

The Group's activities expose it to market risk, credit risk and liquidity risk.

Market risk

Market risk is the risk that changes in market prices, such as interest rates, foreign exchange rates and market prices, will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters.

(i) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of the Group's financial instruments will fluctuate because of changes in market interest rates. The Group's interest rate exposure relates primarily from its fixed deposits (see Note 14).

The Group places surplus funds with major financial institutions as fixed deposits to generate interest income. Interest rates on fixed deposits are determined based on market rates. Interest rate risk is managed by placing such surplus funds on varying maturities and interest rate terms. The Group does not use derivative financial instruments to hedge against interest rate risk. There have been no changes to this policy during the financial year.

Sensitivity analysis for interest rate risk

At the end of the reporting period, if interest rates had been 100 (2016: 100) basis points higher/lower with all other variables held constant, the effect on the Group's profit before tax would have been $93,520 (2016: $143,924) higher/lower, arising mainly as a result of higher/lower interest income on fixed deposits. The methods and assumptions used are consistent with previous period.

(ii) Foreign exchange rate risk

Foreign currency risk arises from change in foreign exchange rates that may have an adverse effect on the Group's result in the current reporting period and in the future years. The Group monitors its foreign currency risk exposure regularly and maintains natural hedge whenever possible by receiving and paying in the same foreign currency to minimise foreign currency risk. There have been no changes to this policy during the financial year.

The Group's exposure to foreign exchange risk relates to transactions denominated in currencies other than the respective functional currencies of Group entities, arising from normal trading and investment activities which are disclosed in the respective notes to the financial statements. The Group does not use foreign currency forward contracts for trading purposes.

35. FINANCIAL RISK MANAGEMENT – *cont'd*

Market risk – *cont'd*

(ii) Foreign exchange rate risk – *cont'd*

Entities within the Group, including the Group's associates maintain their books in their respective functional currencies. Profits and net assets of overseas entities are translated into Singapore Dollar, the Group's reporting currency for consolidation purposes. Fluctuations in the exchange rate between the functional currencies and Singapore Dollar will have an impact on the Group. As these investments are held on long term basis, hedging of exchange risk is inappropriate.

The Group's currency exposure is as follows:

	Ringgit Malaysia ("RM")	Hong Kong Dollar ("HKD")	United States Dollar ("USD")	Singapore Dollar ("SGD")	Total
Group	$	$	$	$	$
2017					
Assets					
Long-term investments	22,493	–	–	–	22,493
Short-term investments	2,350,345	1,474	39,307	3,445,192	5,836,318
Trade and other receivables	9,820,390	–	–	770,035	10,590,425
Fixed deposits	3,852,045	–	–	5,500,000	9,352,045
Cash and bank balances	1,607,307	1,709	–	3,761,132	5,370,148
	17,652,580	3,183	39,307	13,476,359	31,171,429
Liabilities					
Trade and other payables	4,121,174	–	528,067	1,309,876	5,959,117
	4,121,174	–	528,067	1,309,876	5,959,117
Net financial assets/ (liabilities)	13,531,406	3,183	(488,760)	12,166,483	25,212,312
Less: Net financial assets denominated in the respective entities' functional currencies	7,302,981	–	–	12,166,483	19,469,464
Currency exposure of financial assets/ (liabilities)	6,228,425	3,183	(488,760)	–	5,742,848

35. **FINANCIAL RISK MANAGEMENT** – *cont'd*

Market risk – *cont'd*

(ii) Foreign exchange rate risk – *cont'd*

Group	Ringgit Malaysia ("RM") $	Hong Kong Dollar ("HKD") $	United States Dollar ("USD") $	Singapore Dollar ("SGD") $	Total $
2016					
Assets					
Long-term investments	23,451	905,616	–	–	929,067
Short-term investments	2,233,690	1,814	38,812	4,991,124	7,265,440
Trade and other receivables	11,062,870	–	–	650,489	11,713,359
Fixed deposits	3,892,358	–	–	10,500,000	14,392,358
Cash and bank balances	1,338,342	1,760	–	1,757,386	3,097,488
	18,550,711	909,190	38,812	17,898,999	37,397,712
Liabilities					
Trade and other payables	5,494,033	–	135,550	772,151	6,401,734
	5,494,033	–	135,550	772,151	6,401,734
Net financial assets/ (liabilities)	13,056,678	909,190	(96,738)	17,126,848	30,995,978
Less: Net financial assets denominated in the respective entities' functional currencies	6,900,763	–	–	17,126,848	24,027,611
Currency exposure of financial assets/ (liabilities)	6,155,915	909,190	(96,738)	–	6,968,367

35. **FINANCIAL RISK MANAGEMENT** – *cont'd*

Market risk – *cont'd*

(ii) Foreign exchange rate risk – *cont'd*

Company	Ringgit Malaysia ("RM") $	Hong Kong Dollar ("HKD") $	Singapore Dollar ("SGD") $	Total $
2017				
Assets				
Trade and other receivables	5,223	–	657,063	662,286
Amounts owing by subsidiaries	–	–	5,415,299	5,415,299
Fixed deposits	3,782,195	–	5,500,000	9,282,195
Cash and bank balances	5,736	–	888,722	894,458
	3,793,154	–	12,461,084	16,254,238
Liabilities				
Trade and other payables	–	–	1,250,381	1,250,381
	–	–	1,250,381	1,250,381
Net financial assets	3,793,154	–	11,210,703	15,003,857
Less: Net financial assets denominated in the Company's functional currency	–	–	11,210,703	11,210,703
Currency exposure of financial assets	3,793,154	–	–	3,793,154
2016				
Assets				
Long-term investments	–	905,616	–	905,616
Trade and other receivables	5,630	–	635,021	640,651
Amounts owing by subsidiaries	–	–	5,277,299	5,277,299
Fixed deposits	3,821,655	–	10,500,000	14,321,655
Cash and bank balances	5,996	–	819,362	825,358
	3,833,281	905,616	17,231,682	21,970,579
Liabilities				
Trade and other payables	–	–	715,044	715,044
	–	–	715,044	715,044
Net financial assets	3,833,281	905,616	16,516,638	21,255,535
Less: Net financial assets denominated in the Company's functional currency	–	–	16,516,638	16,516,638
Currency exposure of financial assets	3,833,281	905,616	–	4,738,897

35. **FINANCIAL RISK MANAGEMENT** – *cont'd*

Market risk – *cont'd*

(ii) Foreign exchange rate risk – *cont'd*

If the above currencies change against the SGD by 1% (2016: 1%) with all other variables including tax rate being held constant, the effects arising from the net financial assets/liabilities position will be as follows:

	2017 Increase/(decrease)		2016 Increase/(decrease)	
	Net profit $	Equity $	Net profit $	Equity $
Group				
RM against SGD				
- strengthened	62,284	–	61,559	–
- weakened	(62,284)	–	(61,559)	–
HKD against SGD				
- strengthened	32	–	9,091	–
- weakened	(32)	–	(9,091)	–
USD against SGD				
- strengthened	(4,888)	–	(967)	–
- weakened	4,888	–	967	–

	2017 Increase/(decrease)		2016 Increase/(decrease)	
	Net profit $	Equity $	Net profit $	Equity $
Company				
RM against SGD				
- strengthened	37,932	–	38,333	–
- weakened	(37,932)	–	(38,333)	–
HKD against SGD				
- strengthened	–	–	9,056	–
- weakened	–	–	(9,056)	–

(iii) Market price risk

Market price risk is the risk that the fair value or future cash flows of the Group's financial instruments will fluctuate because of changes in market prices (other than interest or exchange rates). The Group is exposed to equity price risk arising from its investment in quoted equity instruments (short-term investments). These instruments are listed mainly in Singapore and Malaysia and they are classified as fair value through profit or loss.

35. **FINANCIAL RISK MANAGEMENT** – *cont'd*

Market risk – *cont'd*

(iii) Market price risk – *cont'd*

The Group's policy is to manage investments returns and equity price risk using a mix of investment grade shares with steady dividend yield and non-investment grade shares with high volatility. There have been no changes to this policy during the financial year.

Sensitivity analysis for equity risk

At the end of the reporting period, if prices for equity securities listed in Singapore and Malaysia changed by 10% (2016: 10%) and 5% (2016: 5%) respectively, with all other variables including tax rate being held constant, the effects on profit after tax and other comprehensive income would have been:

	2017		2016	
	Profit after tax $	Other comprehensive income $	Profit after tax $	Other comprehensive income $
<u>Group</u>				
Listed in Singapore				
- increased by	348,450	–	502,994	–
- decreased by	(348,450)	–	(502,994)	–
Listed in Malaysia				
- increased by	117,517	–	111,685	–
- decreased by	(117,517)	–	(111,685)	–

Credit risk

Credit risk is the potential risk of financial loss resulting from the failure of customers or other parties to settle their financial and contractual obligations to the Group as and when they fall due. The Group's exposure to credit risk mainly relates to long-term and short-term investments, trade and other receivables and cash and cash equivalents.

For trade and other receivables, the management has a credit policy in place and the exposure of credit risk is monitored on an ongoing basis to minimise credit risk. Monies due from customers are followed up, reviewed on a regular basis to understand the reasons, if any, of non-payment or delay in payment so that appropriate action can be implemented promptly. Credit risks of individual counterparties are restricted by credit limits that are approved based on ongoing credit evaluations.

Cash and fixed deposits are placed with major banks and financial institutions. The Group limits its credit risk exposures in respect of investments by only investing in liquid securities and placing it with diverse creditworthy financial institutions.

35. FINANCIAL RISK MANAGEMENT – *cont'd*

Credit risk – *cont'd*

In relation to the corporate guarantees issued by the Company on behalf of its subsidiaries, the credit risk, being the principal risk to which the Company is exposed, represents the loss that would be recognised upon a default by the subsidiaries.

There have been no changes in the above policy during the financial year.

Credit risk concentration profile

The Group determines concentrations of credit risk by monitoring the country profile of its trade receivables on an on-going basis. The credit risk concentration profile of the Group's trade receivables at the end of the reporting period is as follows:

	2017		2016	
	$	% of total	$	% of total
By Country				
Singapore	593,052	6	485,891	4
Malaysia	9,521,401	94	10,963,437	96
	10,114,453	100	11,449,328	100

Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting financial obligations due to shortage of funds. The Group's exposure to liquidity risk arises primarily from mismatches of financial assets and financial liabilities.

The Group manages liquidity risk by maintaining sufficient cash to meet normal operating commitments. There have been no changes to this policy during the financial year.

The table below analyses the Group's financial liabilities exposure into relevant maturity groupings based on contractual undiscounted cash flows.

35. FINANCIAL RISK MANAGEMENT – *cont'd*

Liquidity risk – *cont'd*

	Within one year $
Group	
2017	
Trade and other payables	5,959,117
2016	
Trade and other payables	6,401,734
Company	
2017	
Trade and other payables	1,250,381
2016	
Trade and other payables	715,044

Fair value measurements

The following table analyses financial instruments carried at fair value. The different levels have been defined as follows:

(i) quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1);

(ii) inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices) (Level 2); and

(iii) inputs for the asset or liability that are not based on observable market data (unobservable inputs) (Level 3).

The following table presents the assets and liabilities measured at fair value at 31 July 2017 and 31 July 2016.

35. FINANCIAL RISK MANAGEMENT – *cont'd*

Fair value measurements – *cont'd*

	Level 1 $	Total $
Group		
2017		
Short-term investments	5,836,318	5,836,318
2016		
Short-term investments	7,265,440	7,265,440

Assets not carried at fair value but which fair value are disclosed

Group and Company	Carrying amount $	Level 1 $	Level 2 $	Level 3 $
2017				
Investment property	9,467,616	–	–	24,000,000
2016				
Investment property	5,111,322	–	–	12,500,000

The carrying amounts of cash and bank balances, fixed deposits, trade and other receivables and trade and other payables are assumed to approximate their fair value as these instruments are relatively short-term in nature. For short-term investments, their fair values are based on market quoted price. Unquoted investments are stated at cost less impairment loss, if any, as they have no market price and their fair value cannot be reliably measured by valuation techniques and the Group has no intention to dispose them.

Financial Instrument by category

The carrying amounts of the different categories of financial instruments are as described in Note 11, Note 12, Note 13, Note 14, Note 15, Note 16 and Note 17 to the financial statements and are as follows:

	GROUP		COMPANY	
	2017 $	2016 $	2017 $	2016 $
Loans and receivables	25,312,618	29,203,205	16,254,238	21,064,963
Financial liabilities at amortised cost	5,959,117	6,401,734	1,250,381	715,044

36. CAPITAL MANAGEMENT

The primary objective of the Group's capital management is to maintain a good credit rating and healthy capital ratios in order to support its business and enhance shareholder value.

The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes during the years ended 31 July 2017 and 31 July 2016.

The capital structure of the Group consists of equity attributable to equity holders of the Company.

The Group and the Company are not subject to externally imposed capital requirements for the financial years ended 31 July 2017 and 31 July 2016.

37. NEW OR REVISED ACCOUNTING STANDARDS AND INTERPRETATION

Below are the mandatory standards, amendments and interpretations to existing standards that have been published, and are relevant for the Group's accounting periods beginning on or after 1 August 2016 or later periods and which the Group has not early adopted:

Description		**Effective date (annual periods beginning on or after)**
Amendments to FRS 110 and FRS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	To be determined
Improvements to FRS (December 2016)		
Amendments to FRS 112	Disclosure of interests in Other Entities	1 January 2017
Amendments to FRS 28	Investments in Associates and Joint Ventures	1 January 2018
Amendments to FRS 7	Disclosure Initiative	1 January 2017
Amendments to FRS 12	Recognition of Deferred Tax Assets for Unrealised Losses	1 January 2017
FRS 40	Transfers of Investment Property	1 January 2018
FRS 109	Financial Instruments	1 January 2018
FRS 115	Revenue from Contracts with Customers	1 January 2018
FRS 116	Leases	1 January 2019

The management anticipates that the adoption of the above new standards and amendments to existing standards in the future periods will not have a material impact on the financial statements of the Group and of the Company in the period of their initial adoption except for FRS 109, FRS 115 and FRS 116 where the management is currently evaluating the potential impact of their application.

Analysis of Shareholdings as at 16 October 2017

ISSUED AND FULLY PAID-UP CAPITAL	:	S$33,278,673
NO. OF SHARES ISSUED	:	25,812,520
CLASS OF SHARES	:	ORDINARY SHARES
VOTING RIGHTS	:	1 VOTE PER SHARE
NO. OF TREASURY SHARES	:	NIL

SIZE OF SHAREHOLDINGS	NO. OF SHAREHOLDERS	% OF SHAREHOLDERS	NO. OF SHARES	% OF SHARES
1 - 99	11	1.44	290	0.00
100 - 1,000	247	32.37	138,393	0.53
1,001 - 10,000	385	50.46	1,434,401	5.56
10,001 - 1,000,000	114	14.94	6,468,111	25.06
1,000,001 & ABOVE	6	0.79	17,771,325	68.85
TOTAL	763	100.00	25,812,520	100.00

SHAREHOLDINGS IN THE HANDS OF THE PUBLIC AS AT 16 OCTOBER 2017

The percentage of shareholdings in the hands of the public was approximately 32.68% and hence the company has complied with Rule 723 of the New SGX-ST Listing Manual which states that an issuer must ensure that at least 10% of its listed securities is at all time held by the public.

TOP TWENTY SHAREHOLDERS AS AT 16 OCTOBER 2017

NAME OF SHAREHOLDERS	NO. OF SHARES	% OF SHARES
KAH HONG PTE LTD	4,670,830	18.10
CEPHEUS CORPORATION PTE LTD	4,502,430	17.44
KHONG GUAN GROUP PTE LTD	3,698,465	14.33
HONG LEONG FINANCE NOMINEES PTE LTD	2,000,000	7.75
KHONG GUAN DEVELOPMENT PTE LTD	1,641,600	6.36
INTER-OCEAN SHIPPING & TRADING PTE LTD	1,258,000	4.87
UNITED OVERSEAS BANK NOMINEES PTE LTD	707,000	2.74
CIMB SECURITIES (S'PORE) PTE LTD	602,300	2.33
NG KIM HOCK OR GOH LAY ENG	337,200	1.31
CITIBANK NOMINEES S'PORE PTE LTD	302,200	1.17
DBS VICKERS SECURITIES (S) PTE LTD	300,200	1.16
DBS NOMINEES PTE LTD	217,840	0.84
GTK INVESTMENT (S) PTE LTD	214,000	0.83
NG SOO GIAP OR CHEW SOOI GUAT	205,700	0.80
CHEW SOO ENG	201,666	0.78
CHUA PANG	170,000	0.66
TAN KHIOK KWEE	165,700	0.64
WANG TONG PENG @ WANG TONG PANG	141,000	0.55
CHONG SHEE JAN	124,800	0.48
THIA CHENG SONG	123,000	0.48
TOTAL	21,583,931	83.62

SUBSTANTIAL SHAREHOLDERS

	DIRECT INTEREST		DEEMED INTEREST	
NAME OF SHAREHOLDERS	NO. OF SHARES	%	NO. OF SHARES	%
CEPHEUS CORPORATION PTE LTD	5,152,430	19.96	3,694,465 *1	14.31
KAH HONG PTE LTD	4,670,830	18.10	3,694,465 *2	14.31
KHONG GUAN GROUP PTE LTD	3,694,465	14.31	—	—
KHONG GUAN DEVELOPMENT PTE LTD	1,641,600	6.36	—	—
GOH TEE KIA	660,000	2.56	2,534,000 *3	9.82
GTK HOLDING PTE LTD	1,700,000	6.59	250,000 *4	0.97
JIA FENG LIMITED	—	—	3,694,465 *5	14.31

Notes:

*1 Cepheus Corporation Pte Ltd is deemed to be interested in the 3,694,465 shares held by Khong Guan Group Pte Ltd by virtue of the provisions of Section 7 of Companies Act, Cap. 50.

*2 Kah Hong Pte Ltd is deemed to be interested in the 3,694,465 shares held by Khong Guan Group Pte Ltd by virtue of the provisions of Section 7 of Companies Act, Cap. 50.

*3 Mr Goh Tee Kia is deemed to be interested in the 200,000 shares held by G&C General Contractors Pte Ltd, 1,700,000 shares held by GTK Holding Pte Ltd, 414,000 shares held by GTK Investment (S) Pte Ltd, 50,000 shares held by GTK F&B Pte Ltd and 170,000 shares held by Madam Chua Pang (wife) by virtue of the provision of Section 7 of Companies Act, Cap. 50.

*4 GTK Holding Pte Ltd is deemed to be interested in the 200,000 shares held by G&C General Contractors Pte Ltd and 50,000 shares held by GTK F&B Pte Ltd by virtue of the provisions of Section 7 of Companies Act, Cap. 50.

*5 Jia Feng Limited is deemed to be interested in the 3,694,465 shares held by Khong Guan Group Pte Ltd by virtue of the provisions of Section 7 of Companies Act, Cap. 50.

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KHONG GUAN LIMITED

Company Regn. No. 196000096G
Incorporated in the Republic of Singapore
Registered Office:
85 Playfair Road #07-01 Tong Yuan Industrial Building, Singapore 368000

Important:
1. For investors who have used their CPF monies to buy Khong Guan Limited shares, this Annual Report is sent to them at the request of their CPF Approved Nominees solely FOR INFORMATION ONLY.
2. This Proxy Form is FOR USE ONLY BY MEMBERS whose shares in Khong Guan Limited are registered in their names. It is not valid for use by CPF investors and persons whose shares are not registered in their own names, and shall be ineffective for all intents and purposes if used or purported to be used by them.

PROXY FORM

I/We ______________________________ (Name) ______________________ (NRIC/Passport No.)

of ____ (Address)

being a member/members of Khong Guan Limited ("the Company"), hereby appoint:

Name	Address	NRIC/Passport No.	Proportion of Shareholdings	
			No. of Shares	%
and/or (delete as appropriate)				

or failing him/her/them, the Chairman of the Annual General Meeting ("AGM") of the Company as my/our proxy/proxies to attend and to vote for me/us on my/our behalf at the AGM to be held at the Banquet Hall (Level 3), The Grassroots' Club, 190 Ang Mo Kio Avenue 8, Singapore 568046 on Tuesday, 28 November 2017 at 11.00 a.m. and at any adjournment thereof. I/We direct my/our proxy/proxies to vote for or against the Resolutions to be proposed at the AGM as indicated hereunder. If no specific direction as to voting is given or in the event of any other matter arising at the AGM and at any adjournment thereof, the proxy/proxies will vote or abstain from voting at his/her discretion.

(Please indicate with an 'X' in the space provided whether you wish your vote(s) to be cast for or against the Resolutions set out in the Notice of AGM. In the absence of specific directions, the proxy/proxies will vote or abstain as he/they may think fit).

No.	Resolutions	For	Against
1.	To adopt Reports and Financial Statements		
2.	To declare Dividend		
3.	To approve Directors' Fees		
4.	To re-elect Mr Ng Peng Teng		
5.	To re-appoint an Independent Auditor		
6.	To renew the shareholders' mandate for interested person transactions		
7.	To approve the proposed Share Issue Mandate		

Dated this ________________ day of ______________________ 2017.

Total No. of Shares in:	No. of Shares
(a) Register of Members	
(b) Depository Register	

____
Signature(s) of Member(s)/Common Seal of Corporate Shareholder

IMPORTANT
Please read Notes on the reverse.

Notes:

1. Please insert in the box at the bottom left hand corner of this form, the number of Shares registered in your name in the Register of Members in respect of share certificates held by you and the number of Shares entered against your name in the Depository Register maintained by The Central Depository (Pte) Limited ("CDP"). If no number is inserted, the instrument appointing a proxy or proxies shall be deemed to relate to all the Shares held by you.

2. (a) A member who is not a relevant intermediary is entitled to appoint not more than two proxies to attend, speak and vote at the meeting. Where such member's form of proxy appoints more than one proxy, the proportion of the shareholding concerned to be represented by each proxy shall be specified in the form of proxy.

   (b) A member who is a relevant intermediary is entitled to appoint more than two proxies to attend, speak and vote at the meeting, but each proxy must be appointed to exercise the rights attached to a different share or shares held by such member. Where such member's form of proxy appoints more than two proxies, the number and class of shares in relation to which each proxy has been appointed shall be specified in the form of proxy.

   "**Relevant intermediary**" has the meaning ascribed to it in Section 181 of the Companies Act (Chapter 50 of Singapore).

3. A proxy need not be a member of the Company.

4. Completion and return of this instrument appointing a proxy shall not preclude a member from attending and voting at the AGM. Any appointment of a proxy or proxies shall be deemed to be revoked if a member attends the meeting in person, and in such event, the Company reserves the right to refuse to admit any person or persons appointed under the instrument of proxy to the AGM.

5. The instrument appointing a proxy or proxies must be deposited at the registered office of the Company at 85 Playfair Road #07-01 Tong Yuan Industrial Building, Singapore 368000, not less than 48 hours before the time fixed for holding the AGM.

6. The instrument appointing a proxy or proxies must be under the hand of the appointor or his attorney duly authorised in writing. Where the instrument appointing a proxy or proxies is executed by a corporation, it must be executed either under its common seal or under the hand of its attorney or a duly authorised officer.

7. A corporation which is a member may also authorize by resolution of its directors or other body such person as it thinks fit to act as its representative at the meeting in accordance with Section 179 of the Companies Act, Chapter 50.

8. The Company shall be entitled to reject this instrument of proxy if it is incomplete, not properly completed or illegible or where the true intentions of the appointer are not ascertainable from the instructions of the appointer specified in this instrument appointing a proxy or proxies. In addition, in the case of members whose Shares are entered against their names in the Depository Register, the Company may reject any instrument of proxy lodged if such member is not shown to have Shares entered against his name in the Depository Register as at 72 hours before the time fixed for holding the AGM as certified by CDP to the Company.

Personal data privacy

By submitting an instrument appointing a proxy(ies) and/or representative(s) to attend, speak and vote at the AGM and/or any adjournment thereof, a member of the Company (i) consents to the collection, use and disclosure of the member's personal data by the Company (or its agent or service providers) for the purpose of the processing, administration and analysis by the Company (or its agents or service providers) of proxies and representatives appointed for the AGM (including any adjournment thereof) and the preparation and compilation of the attendance lists, minutes and other documents relating to the AGM (including any adjournment thereof), and in order for the Company (or its agents or service providers) to comply with any applicable laws, listing rules, take-over rules, regulations and/or guidelines (collectively, the "Purposes"), and (ii) warrants that where the member discloses the personal data of the member's proxy(ies) and/or representatives(s) to the Company (or its agent or service providers), the member has obtained the prior consent of such proxy(ies) and/or representative(s) for the collection, use and disclosure by the Company (or its agents or service providers) of the personal data of such proxy(ies) and/or representative(s) for the Purposes and (iii) agrees that the member will indemnify the Company in respect of any penalties, liabilities, claims, demands, losses and damages as a result of the member's breach of warranty.

KHONG GUAN
LIMITED

(formerly known as Khong Guan Flour Milling Limited)